

Financial Report
of
South Dakota State University
Brookings, South Dakota,
Its Colleges and Agencies

University Proper
College of Agriculture & Biological Sciences
College of Arts & Sciences
College of Education & Human Sciences
College of Nursing
College of Pharmacy
Graduate School
Jerome J. Lohr College of Engineering
University College
Van D. & Barbara B. Fishback Honors College

SDSU Extension

Agricultural Experiment Station

Animal Disease Research and Diagnostic Laboratory



For the year ended June 30, 2014



South Dakota
State University

Office of the President

Administration 222, Box 2201
South Dakota State University
Brookings, SD 57007-2298
Phone: 605-688-4111
Fax: 605-688-4443

Handwritten signature

March 23, 2015

Regent Dean Krogman, President
South Dakota Board of Regents
429 Telluride Lane
Brookings, SD 57006

Dear President Krogman:

I am pleased to forward the Financial Report for South Dakota State University, covering the fiscal year 2013-2014. This report covers all phases of the financial transactions of the University for the twelve-month period ending June 30, 2014.

Copies of the report will be sent to Jack R. Warner, executive director of the South Dakota Board of Regents.

Sincerely,

David L. Chicoine, PhD.
President

Enclosure



South Dakota
State University

Department of Finance and Business

Finance-Budget
Institutional Research

Administration 324, Box 2201
South Dakota State University
Brookings, SD 57007
Phone: 605-688-4920
Fax: 605-688-5822

March 23, 2015

Dr. David Chicoine
President
South Dakota State University

Dear Dr. Chicoine:

The Annual Financial Report of South Dakota State University for the year ending June 30, 2014 is complete and submitted in the attached exhibits.

The reports of South Dakota State University have been presented in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These reports provide a comprehensive record of the University's financial activities as a whole.

The South Dakota State University Foundation is a legally separate, tax-exempt entity that acts primarily as a fund raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's financial statements, audited by an independent certified public accountant, are included in this report as it has been determined to be a component unit of the University based on the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

All state fund expenditures are under the continuous pre-audit control of the State Auditor and all accounts are under the post-audit control of the Auditor General. This report is intended to form a comprehensive and permanent record of the finances of South Dakota State University for the fiscal year ending June 30, 2014.

Sincerely,

Wesley Tschetter
Vice President Finance and Business/CFO

**SOUTH DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

BOARD OF REGENTS

DEAN KROGMAN, President, Brookings
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DAVID L. CHICOINE

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Mark D. Pust, Senior Accountant
Cathy M. Lynn, Senior Accountant
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Arlys E. Janssen, Institutional Payroll Supervisor
Ross Pirlet, Student Accounts Specialist
Jane F. Dvorak, Student Loan Manager
Leo Gannon, Bursar

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**SOUTH DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

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SOUTH DAKOTA STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of South Dakota State University's annual financial report presents management's discussion and analysis of the University's financial operations during the fiscal year ended June 30, 2014. The discussion and analysis should be read in conjunction with the accompanying financial statements and footnotes. The accuracy of the financial statements, footnote disclosures, and discussion are the responsibility of management.

Based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, it has been determined that the South Dakota State University Foundation is a component unit of the University. In accordance with GASB 39, the SDSU Foundation's financial statements are presented behind the statements of the University. Independent auditors engaged by the Foundation's Board of Directors audit the Foundation's financial information. The University has no control or management responsibility over the Foundation funds.

Reporting Entity

South Dakota State University is one of six public universities under the control of the South Dakota Board of Regents. The public universities are considered a component unit of the State of South Dakota and are reported as such in the State's Comprehensive Annual Financial Report.

The financial operations of South Dakota State University are audited as part of the audit of the State of South Dakota. An audit opinion is not issued on the individual statements of the University, but rather on the audited Comprehensive Annual Financial Report of the State of South Dakota.

Using the Annual Report

The accompanying statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and by GASB No. 65 *Items Previously Reported as Assets and Liabilities*. The accompanying financial statements provide a comprehensive view of the financial operations of the University as a whole.

Due to the implementation of GASB 65 *Items Previously Reported as Assets and Liabilities*, the FY13 financial statements have been restated. As a result of the restatement, Unamortized Issuance Costs of \$1,129,930.16 which had previously been reported as an asset was expensed in FY13 as Bond Issuance Expense with the

corresponding reduction in Unrestricted Net Position of \$1,129,130.16 as of June 30, 2013.

The statements prescribed by GASB Statement No. 35 as amended by GASB Statement No. 63 and GASB Statement No. 65 include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when a liability is incurred regardless of when the exchange of cash takes place.

The Statement of Net Position presents information on all of the University's assets, deferred outflows of resources, liabilities and deferred inflows with the difference between them being reported as net position which is one way of measuring the University's financial position. Changes in net position are an indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities serving the students.

The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are reported as either operating or non-operating. In accordance with the GASB Statement 35 reporting model requirements, state and federal appropriations are reported as non-operating revenues, resulting in the reporting of a significant net operating loss. The financial statements also reflect an allowance for depreciation expense, which is the amortization of the cost of a capital asset over its estimated useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows. Transactions are classified as operating, non-capital, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations as they mature.

Financial Highlights

The University's financial position improved during the fiscal year ended June 30, 2014 as compared to the previous fiscal year as evidenced by:

- The University's total assets increased over the prior year by \$38.9 million. The most significant change was an increase to Buildings & Building Improvements of \$39.7 million primarily from additions stemming from the Series 2011 bond issue for four Residence Halls and the University Student Union Renovation. Other significant changes include an increase in Cash of \$4.0 million primarily from the receipt of \$7.0 million in new debt from the Series 2014A bonds offset by a decrease in Cash of \$1.6 million due to additional bond retirement in FY14; an increase in Infrastructure of \$2.3 million primarily for a Steam Distribution System and Electrical Distribution System; an increase in Due From Component Units of \$2.3 million primarily for a financing agreement of \$1.9 million between SDSU and the South Dakota Building

Authority for the construction of a Cow/Calf Unit; an increase of \$1.4 million in outstanding Accounts Receivable – Student; a decrease in Construction in Progress of \$9.0 million primarily for the change in classification of capitalized construction from the Series 2011 bonds from Construction in Progress to Buildings & Building Improvements, net of new capitalized construction for the Indoor Practice Facility and the Architecture, Math & Engineering Building; a decrease in Due From Federal Sources of \$1.7 million primarily for decreases from Federal Appropriations and Federal Grants & Contracts.

- The University's largest asset is its investment in physical plant which represents \$410.9 million at June 30, 2014.
- The University's liabilities increased by \$6.4 million primarily due to the issuance of the Series 2014A bonds with the resulting increase in bonds payable of \$2.2 million; an increase in Obligations Under Capital Leases of \$1.8 million primarily due to a \$1.9 million dollar financing agreement between SDSU and the South Dakota Building Authority less the current retirement of capital lease obligations; an increase in Accounts Payable of \$1.7 million primarily due to expenditures for the Indoor Practice Facility.
- The University's largest liability is its revenue bonds payable of \$121.5 million, net of premiums and discounts.
- The University's net position increased by \$32.3 million to \$326.5 million, of which \$296.1 is net investment in capital assets and 6.3 million is restricted. The majority of the remaining \$24.1 million of unrestricted net position is designated for future acquisition or maintenance and repair of plant facilities.
- The University's current assets of \$73.5 million were sufficient to cover current liabilities of \$29.3 million (current ratio of 2.51).

**South Dakota State University
Condensed Statement of Net Position
For the Year Ended**

	June 30, 2014	Restated June 30, 2013
ASSETS		
Current Assets	\$ 73,541,296.74	\$ 66,967,272.22
Non-Current Assets	421,384,677.94	389,030,528.83
	<u>\$ 494,925,974.68</u>	<u>\$ 455,997,801.05</u>
DEFERRED OUTFLOWS OF RESOURCES		
Def Outflow on Debt Refinancing	\$ 137,531.12	\$ 387,998.01
LIABILITIES		
Current Liabilities	\$ 29,290,989.96	\$ 26,994,743.75
Non-Current Liabilities	139,307,027.85	135,251,916.83
	<u>\$ 168,598,017.81</u>	<u>\$ 162,246,660.58</u>
NET POSITION		
Net Investment in Capital Assets	\$ 296,102,161.16	\$ 266,251,358.67
Restricted	6,265,294.01	7,330,524.85
Unrestricted	24,098,032.82	20,557,254.96
	<u>\$ 326,465,487.99</u>	<u>\$ 294,139,138.48</u>

- The most significant sources of operating revenues for the University are student tuition and fees, grants and contracts, general sales and service revenue, and auxiliary enterprise activities.
- Operating revenues increased by \$6.5 million compared to the prior year. Operating revenues saw significant increases to General Sales & Services of \$3.9 million, Auxiliaries of \$3.2 million, Tuition and Fees of \$2.2 million with smaller increases to State Grants & Contracts of \$.6 million and Private Grants & Contracts of \$.2

million. Operating revenues saw a significant decrease to Federal Grants & Contracts of \$3.6 million.

- General Sales & Services increased by \$3.9 million over the previous year. Large increases include a \$1.3 million increase in Rentals & Royalties, a \$1.3 million increase to Guarantees, a \$.4 million increase to Testing Services, a \$.3 million increase to Seed Sales, a \$.3 million increase to Dues, Fees and Registrations and a \$.2 million increase to Fund Raising.
- The increase of \$3.2 million for Auxiliaries was caused by an increase in Residential Life revenue of \$2.4 million and an increase in Food Service revenue of \$1.2 million and a decrease in Bookstore revenue of \$.4 million.
- Tuition & Fee revenue increased by \$2.2 million. State support tuition rates increased by 6.9% but state support credit hours decreased slightly while Student Financial Assistance (student scholarships net of refunds) increased by 7.7% which resulted in an increase in net state support tuition of \$1.4 million. Self support rates increased roughly by 4.4% with a slight reduction in self support credit hours while Student Financial Assistance (student scholarships net of refunds) increased by 2.9% resulting in an increase in net self support tuition of \$.1 million. Student Fee rates were increased roughly 3% to 5% over the previous year while Student Financial Assistance (student scholarships net of refunds) increased by 4.1% resulting in an increase of net Student Fee revenue of \$.7 million.
- State Grants & Contracts increased by \$.6 million. Significant increases were to state grants from the Center for Biological Control of \$.3 million and from state grants from GOED (Governor's Office of Economic Development) of \$.3 million.
- Private Grants & Contracts increased by \$.2 million primarily from an increase in private grants for Financial Aid scholarships of \$.25 million.
- Federal Grants & Contracts decreased by \$3.6 million. Significant decreases were to federal grants from the U.S. Department of Agriculture of \$1.6 million, decreases to federal grants from the Department of Education of \$1.3 million, decreases to federal grants from the National Institute of Health of \$1.1 million, decreases to grants from the American Recovery and Reinvestment Act (ARRA) of \$.4 million, decreases to federal scholarship grants of \$.4 million and decreases to federal grants from the National Science Foundation of \$.2 million. Significant increases were to federal grants from EPSCoR of \$1.4 million.
- Overall Operating Expenses increased by \$11.4 million compared to the prior year. The most significant change from the prior year was an increase to Personal Services of \$8.2 million caused by an increase to Salaries of \$4.6 million (3.7% increase) and an increase to benefits of \$3.6 million (12.8% increase) primarily due to an increase of \$2.7 million in Health Insurance. Other significant changes include an increase to Contractual Services of \$2.4 million, an increase to Depreciation of \$1.8 million, a

decrease to Supplies & Materials of \$.7 million and a decrease to Grants & Subsidies of \$.6 million.

- The operating loss totaled \$68.9 million which was funded primarily by State General Fund Appropriations of \$63.4 million and Federal Appropriations of \$6.3 million.
- State General Fund Appropriations were the most significant non-operating revenue at \$63.4 million which was a \$4.0 million increase from FY13.
- The University received \$6.3 million in Federal Appropriations for FY14 which was a decrease of \$1.9 million from the previous year. The largest decreases in Federal Appropriations came from federal Smith Lever funding which decreased by \$1.0 million, from federal Hatch funding which decreased by \$.6 million and from federal Multi-State funding which decreased by \$.6 million.
- The University received revenue from the Higher Education Facilities Fund of \$5.4 million which was primarily used for the renovation of Medary Commons, for the replacement of an air handling unit for the HPER Center, for the renovation of the Dairy Microbiology Plant, for the lecture hall refinish for the Animal Science Complex, to extend the cooling system and to connect the chiller for the Administration Building, to replace the HVAC system for Old Horticulture Building, for remodeling of the Communications Center, for storm drainage improvement and for various other smaller construction projects.
- The University received \$22.6 million in Capital Grants & Contracts for FY14 primarily from the SDSU Foundation and from various federal grants & contracts which was used primarily for the Indoor Practice Facility, the new football stadium, the Architecture, Math & Engineering building and other smaller building and renovation projects around campus. For FY14, an additional \$8.0 million was received in bond proceeds from the SD Building Authority which was used primarily for the Architecture, Math & Engineering building.

South Dakota State University
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended

	June 30, 2014	Restated June 30, 2013
Total Operating Revenues	\$ 201,939,989.57	\$ 195,424,343.32
Total Operating Expenses	270,838,969.21	259,389,997.77
Operating Loss	\$ (68,898,979.64)	\$ (63,965,654.45)
Net Non-Operating Revenues	65,719,151.62	63,456,047.86
Other Revenues	36,191,436.89	16,750,564.10
Total Increase in Net Position	\$ 33,011,608.87	\$ 16,240,957.51
Net Position, Beginning of Year	294,139,138.48	277,830,361.85
Prior Period Adjustments	(685,259.36)	67,819.12
Net Position, End of Year	\$ 326,465,487.99	\$ 294,139,138.48

- Major sources of operating cash included student tuition, fees and auxiliaries of \$106.7 million, grants and contracts of \$65.5 million and general sales & services of \$26.4 million. The largest use of operating cash was payments to employees of \$157.7 million.
- The most significant source of non-capital financial activities cash was State General Fund appropriations of \$63.4 million.
- The most significant sources of capital related financing activities cash were Capital Grants & Contracts of \$22.5 million, bond proceeds received from the SD Building Authority of \$8.0 million for capital purposes, bond proceeds received from the Series 2014A revenue bond issue of \$7.0 million for new debt, and \$4.9 million received from the Higher Education Facilities fund for capital projects. The most significant uses of capital related financing activities cash were the Purchase of Capital Assets of \$52.1 million which was predominately for construction expenditures for buildings & improvements, and debt service payments of \$9.9 million for various revenue bond issues for the University's Auxiliary System.

**South Dakota State University
Condensed Statement of Cash Flows
For the Year Ended**

	June 30, 2014	Restated June 30, 2013
Cash Provided (Used) by:		
Operating Activities	\$ (49,116,626.35)	\$ (47,216,077.42)
Non-Capital Financial Activities	71,435,970.18	68,637,613.53
Capital Related Financing Activities	(19,024,542.39)	(52,800,579.28)
Investing Activities	716,590.17	1,030,928.63
Net Increase (Decrease) in Cash	4,011,391.61	(30,348,114.54)
Cash, Beginning of Year	38,587,682.46	68,935,797.00
Cash, End of Year	\$ 42,599,074.07	\$ 38,587,682.46

Outlook for FY15 and Beyond

The ability of the University to fulfill its education mission and execute its strategic plans is positively influenced by stable enrollment. Fall 2014 total full-time equivalent enrollment decreased slightly from 10,220 in Fall 2013 to 10,180 in Fall 2014. Fall 2014 headcount enrollment was at 12,557 compared to 12,554 for Fall 2013. It is projected that enrollment will continue to remain stable for FY16.

Reliance on State support remains an important non-operating revenue source for the University. For FY15, it is expected that the State General Fund appropriations will be impacted by state and national economic pressures impacting revenues generated for the State General Fund. Each year the University continues to be confronted with increases in health care costs, compensation, and utilities.

Additional challenges include maintenance and repair of plant facilities and major renovations to facilities. Maintenance and repair of facilities is essential to provide safe, effective and current education and service to the State. Major projects that are in the planning process or in progress include renovation of residence halls, renovations of the Central Heating Plant, renovation of Medary Commons, HVAC replacement for the Physical Education Center Arena, construction of an indoor practice facility, construction

of an Architecture, Math & Engineering building, construction of a new football stadium, construction of a new headhouse/greenhouse and construction of a cow/calf unit.

The University has a 10 year Capital Plan which includes the Bioscience & Engineering Research Laboratory, Briggs Library renovation, Frost Arena renovation, Harding Hall renovation, SD Art Museum addition, Heating and cooling upgrades, Intramural Building renovation, Performing Arts Center addition, Upperclass Housing, Museum for Agricultural Science & Heritage, Swine Education and Research Facilities, University Student Union addition, University Student Union Volstorff Ballroom Upgrade, Visual Arts Facility, Plant Science Research Support Facility, Water, wastewater and storm water upgrades, Wellness Center addition, West River Ag Experiment Center, Native American Education & Multicultural Facility, Wecota Annex renovation and Wecota Hall lower level renovation.

South Dakota State University maintains a positive outlook for FY15 and beyond. The University continues to be well positioned for the future, both academically and financially in its mission of education, research and service.

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Current Year</u>	<u>Restated Prior Year</u>
ASSETS:		
Current Assets:		
Cash on Deposit - State Treasurer	\$ 37,687,928.18	\$ 31,220,389.71
Cash & Cash Equivalents	4,911,145.89	7,301,501.97
Accounts Receivable - Student	4,611,242.12	3,173,257.96
Accounts Receivable - Dept. Sales	3,088,111.32	3,253,016.43
Student Notes Receivable (Net of Allowance of \$111,348.92 2014 & \$65,223.06 2013)	2,083,027.99	1,938,071.10
Interest Receivable	347,549.18	715,088.83
Prepaid Expenses	1,533,869.90	990,116.53
Inventories	5,504,634.86	5,101,021.35
Due From Federal Sources	10,201,939.23	11,919,398.04
Due From Primary Government	1,067,444.61	1,014,678.29
Due From Other Component Units	2,489,200.13	203,271.56
Investments, Carried at Market	-	114,662.17
Unamortized Cost of Issuance	15,203.33	22,798.28
Total Current Assets	\$ 73,541,296.74	\$ 66,967,272.22
Non-Current Assets:		
Restricted Cash on Deposit - State Treasurer	\$ -	\$ 65,790.78
Student Notes Receivable (Net of Allowance of \$483,342.08 2014 & \$323,979.94 2013)	9,460,135.44	9,643,279.60
UnRestricted Long Term Investments	276,441.12	280,692.54
Unamortized Cost of Issuance	283,463.24	371,767.89
Land	9,135,997.70	9,135,997.70
Construction in Progress	54,534,452.77	63,576,883.81
Buildings & Bldg Impr (Net of Accum Depr \$130,279,439.00 2014; \$118,262,601.11 2013)	287,236,427.87	247,536,539.78
Land Improvements (Net of Accum Depr of \$6,205,746.00 2014 & \$5,756,600.05 2013)	8,286,753.31	7,763,976.09
Infrastructure (Net of Accum Depr of \$5,631,953.87 2014 & \$5,177,531.87 2013)	16,194,176.48	13,926,916.68
Equipment & Other Property (Net of Accum Depr \$75,147,441.50 2014 & \$72,447,527.52 2013)	26,800,275.14	27,787,631.66
Museum and Art Collections	8,669,910.50	8,656,860.50
Intangible Assets (Net of Accum Amort \$35,069.73 2014 & \$16,291.65 2013)	354,144.37	86,691.80
Other Assets	152,500.00	197,500.00
Total Non-Current Assets	\$ 421,384,677.94	\$ 389,030,528.83
Deferred Outflows of Resources:		
Deferred Outflow on Debt Refunding	\$ 137,531.12	\$ 387,998.01
Total Deferred Outflows of Resources	\$ 137,531.12	\$ 387,998.01
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 495,063,505.80	\$ 456,385,799.06

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2014**

	Current Year	Restated Prior Year
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 9,885,114.29	\$ 8,224,329.01
Accrued Wages & Benefits	3,291,220.45	2,824,267.30
Accrued Interest Payable	1,403,260.63	1,402,061.51
Due To Primary Government	719,303.27	621,675.77
Due To Other Component Units	377,916.78	324,139.23
Student Deposits	416,755.43	458,549.49
Compensated Absences Payable	4,822,528.22	4,433,208.47
Notes Payable	165,000.00	165,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	4,881,727.34	4,709,754.01
Obligations Under Capital Leases	48,109.68	37,087.26
Unearned Revenue	3,008,237.42	3,539,828.77
Agency Funds - Funds Held for Others	271,816.45	254,842.93
Total Current Liabilities	\$ 29,290,989.96	\$ 26,994,743.75
Non-Current Liabilities:		
Compensated Absences Payable	\$ 9,783,006.60	\$ 9,755,048.54
Notes Payable	330,000.00	495,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	116,602,149.27	114,555,431.87
Obligations Under Capital Leases	1,829,474.56	-
Federal Capital Contribution - Student Loans	10,762,397.42	10,446,436.42
Total Non-Current Liabilities	\$ 139,307,027.85	\$ 135,251,916.83
TOTAL LIABILITIES	\$ 168,598,017.81	\$ 162,246,660.58
NET POSITION:		
Net Investment in Capital Assets	\$ 296,102,161.16	\$ 266,251,358.67
Restricted Non-Expendable:		
Loans	2,135,736.12	2,406,349.88
Restricted Expendable:		
Scholarships and fellowships	153,725.35	185,724.70
Research	1,295,220.94	1,676,957.07
Debt Service	-	65,790.78
Renewals & Replacements	2,672,148.88	2,963,202.42
Other	8,462.72	32,500.00
Unrestricted	24,098,032.82	20,557,254.96
TOTAL NET POSITION	\$ 326,465,487.99	\$ 294,139,138.48
TOTAL LIABILITIES & NET POSITION	\$ 495,063,505.80	\$ 456,385,799.06

The accompanying notes to the South Dakota State University financial statements are an integral part of this statement.

South Dakota State University Foundation
Consolidated Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Cash and Cash Equivalents	\$ 4,851,967	\$ 6,247,016
Investments (Note 2)	137,082,591	104,491,163
Receivables		
Promises to give, net of allowance and discount (Note 3)	28,041,868	31,565,547
Trusts held by others	2,098,267	1,545,058
Notes, contracts, and other receivables (Note 4)	3,161,130	1,561,954
Property, Net of Accumulated Depreciation	5,657,315	5,188,244
Property Held for Investment	7,290,493	6,423,742
Other Assets		
Prepaid expenses, inventory, and other assets	1,972,703	2,294,562
Cash surrender value of life insurance	425,867	386,460
Life estates	1,257,155	1,257,155
Beneficial interest in perpetual trust	967,684	837,415
	\$ 192,807,040	\$ 161,798,316
Liabilities		
Accounts Payable, Accrued Expenses, and Other Liabilities	\$ 1,736,481	\$ 1,353,391
Due to SDSU - Scholarships	1,575,329	1,595,408
Investments Held for Others	246,728	252,561
Gift Annuities and Life Income Agreements	8,838,028	8,848,794
Notes Payable (Note 5)	12,575,650	14,840,865
Total liabilities	24,972,216	26,891,019
Net Assets (Deficit)		
Unrestricted (Note 8)	(11,241,281)	(14,435,814)
Temporarily Restricted (Note 7)	58,294,254	38,956,684
Permanently Restricted (Note 7)	120,781,851	110,386,427
Total net assets	167,834,824	134,907,297
	\$ 192,807,040	\$ 161,798,316

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	Current Year	Restated Prior Year
OPERATING REVENUES:		
Tuition:		
State-Support Tuition	\$ 33,098,202.75	\$ 31,345,747.96
Self-Support Tuition	15,318,647.96	15,168,808.20
	\$ 48,416,850.71	\$ 46,514,556.16
Total Tuition		
Fees:		
University Support Fee	\$ 9,354,947.53	\$ 9,437,198.50
Salary Competitiveness Fee	7,687,747.86	7,750,154.35
General Activity Fee	6,661,821.71	6,405,216.33
Salary Enhancement Fees	932.82	2,314.44
Special Discipline Fees	10,275,948.54	9,796,136.58
Lab Fees	1,284,233.52	1,242,746.29
Vehicle Registration Fees	775,289.25	593,530.20
Delivery Fees	1,965,718.32	1,991,342.37
Technology Fees	3,114,850.28	3,137,970.17
Other Fees	154,848.03	133,120.03
Student Charges	1,365,514.13	1,267,587.30
	\$ 42,641,851.99	\$ 41,757,316.56
Total Fees		
Total Tuition and Fees	\$ 91,058,702.70	\$ 88,271,872.72
Less Student Financial Assistance	(12,320,830.81)	(11,713,901.39)
	\$ 78,737,871.89	\$ 76,557,971.33
Total Tuition and Fees Net of Student Financial Assistance		
Auxiliaries (Net of Student Financial Assistance of \$4,760,592.75 2014 & \$4,160,744.75 2013)	30,429,432.33	27,186,467.48
General Sales & Services	27,942,203.70	24,000,923.30
Federal Grants & Contracts	46,044,162.25	49,606,202.95
State Grants & Contracts	5,756,747.36	5,200,479.51
Private Grants & Contracts	12,762,720.84	12,552,123.27
Student Loan Interest	212,810.83	213,827.05
Loan Cancellation Reimbursement	-	-
Other Revenues & Additions	54,040.37	106,348.43
	\$ 201,939,989.57	\$ 195,424,343.32
TOTAL OPERATING REVENUES		

SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Current Year	Restated Prior Year
OPERATING EXPENSES:		
Personal Services (Salaries & Benefits)	\$ 158,623,877.75	\$ 150,424,880.33
Travel	7,454,124.26	7,250,828.49
Contractual Services	39,452,152.04	37,057,519.68
Supplies & Materials	27,362,369.16	28,046,509.57
Grants & Subsidies	18,955,193.74	19,568,188.39
Interest	3,651.08	900.29
Loan Cancellation Expense	323,632.98	374,484.80
Bad Debts	205,488.00	5,875.00
Depreciation	18,359,345.25	16,579,465.85
Amortization of Intangibles	18,778.08	10,298.35
Other Operating Expense	80,356.87	71,047.02
	\$ 270,838,969.21	\$ 259,389,997.77
TOTAL OPERATING EXPENSES		
	\$ (68,898,979.64)	\$ (63,965,654.45)
OPERATING LOSS		
	\$ (68,898,979.64)	\$ (63,965,654.45)
NON-OPERATING REVENUES (EXPENSES):		
General Fund Appropriations	\$ 63,438,052.00	\$ 59,408,847.00
School & Public Lands	616,869.60	617,502.26
Federal Fund Appropriations	6,269,384.03	8,166,319.18
Higher Education Facilities Fund	484,152.89	1,156,346.22
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Investment Income	349,054.48	714,732.14
Other Non-Operating Revenue & Additions	18,030.48	29,764.33
Interest Expense related to Capital Assets	(5,326,117.80)	(5,643,808.63)
Loss on Disposal of Capital Assets	(144,209.48)	(113,721.04)
Unrealized Gain (Loss) on Investments	3.90	(3.44)
Bond Issuance Expense	(236,068.48)	(1,129,930.16)
	\$ 65,719,151.62	\$ 63,456,047.86
NET NON-OPERATING REVENUES		
	\$ 65,719,151.62	\$ 63,456,047.86
INCOME BEFORE OTHER REVENUES, EXPENSES & OTHER CHANGES	\$ (3,179,828.02)	\$ (509,606.59)
Capital Grants & Contracts	22,556,516.66	11,313,241.56
SD Building Authority Bond Proceeds	7,951,642.12	1,951,993.63
BAB Subsidy	558,810.52	618,010.38
Capital Appropriations	245,765.05	-
Higher Education Facilities Fund	4,878,702.54	2,867,318.53
	\$ 33,011,608.87	\$ 16,240,957.51
NET INCREASE IN NET POSITION		
	\$ 33,011,608.87	\$ 16,240,957.51
NET POSITION, BEGINNING OF YEAR	294,139,138.48	277,830,361.85
Prior Period Adjustments	(685,259.36)	67,819.12
	\$ 326,465,487.99	\$ 294,139,138.48
NET POSITION, END OF YEAR		
	\$ 326,465,487.99	\$ 294,139,138.48

The accompanying notes to the South Dakota State University financial statements are an integral part of this statement.

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Support, and Gains				
Gifts	\$ 170,139	\$ 36,019,048	\$ 8,561,926	\$ 44,751,113
Investment income	447,674	2,279,092	228,005	2,954,771
Net realized and unrealized gains and losses	(152,822)	8,605,302	334,426	8,786,906
Change in split interest agreements	-	(13,805)	950,414	936,609
Other revenue				
Telemarketing contract	300,000	-	-	300,000
Related organizations	358,847	2,452,096	-	2,810,943
Professional fundraising	260,000	-	-	260,000
Other	36,280	313,406	(114,374)	235,312
	<u>1,420,118</u>	<u>49,655,139</u>	<u>9,960,397</u>	<u>61,035,654</u>
Net assets released from restrictions (Note 7)	<u>27,228,510</u>	<u>(27,138,433)</u>	<u>(90,077)</u>	<u>-</u>
Total revenue, support, and gains	<u>28,648,628</u>	<u>22,516,706</u>	<u>9,870,320</u>	<u>61,035,654</u>
Expenses				
Program Services				
SDSU scholarships	3,438,404	-	-	3,438,404
SDSU operational and program support	5,703,764	-	-	5,703,764
SDSU capital projects	11,155,718	-	-	11,155,718
Grants to others	803,455	-	-	803,455
Related organizations	2,546,652	-	-	2,546,652
Total program services	<u>23,647,993</u>	<u>-</u>	<u>-</u>	<u>23,647,993</u>
Support Services				
Administrative and general expenses	<u>4,460,134</u>	<u>-</u>	<u>-</u>	<u>4,460,134</u>
Total expenses	<u>28,108,127</u>	<u>-</u>	<u>-</u>	<u>28,108,127</u>
Interfund Transfers (Note 8)	<u>2,654,032</u>	<u>(3,179,136)</u>	<u>525,104</u>	<u>-</u>
Change in Net Assets	<u>\$ 3,194,533</u>	<u>\$ 19,337,570</u>	<u>\$ 10,395,424</u>	<u>\$ 32,927,527</u>

South Dakota State University Foundation
Consolidated Statements of Activities
Years Ended December 31, 2013 and 2012

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 79,868	\$ 20,466,969	\$ 4,628,199	\$ 25,175,036
500,700	1,958,521	136,304	2,595,525
37,207	6,159,389	213,754	6,410,350
-	(16,780)	710,389	693,609
300,000	-	-	300,000
91,673	2,055,365	-	2,147,038
150,000	-	-	150,000
60,574	1,233,199	3,862	1,297,635
<u>1,220,022</u>	<u>31,856,663</u>	<u>5,692,508</u>	<u>38,769,193</u>
17,266,844	(17,109,853)	(156,991)	-
<u>18,486,866</u>	<u>14,746,810</u>	<u>5,535,517</u>	<u>38,769,193</u>
2,980,594	-	-	2,980,594
4,558,400	-	-	4,558,400
3,075,014	-	-	3,075,014
175,244	-	-	175,244
2,068,870	-	-	2,068,870
<u>12,858,122</u>	<u>-</u>	<u>-</u>	<u>12,858,122</u>
4,150,430	-	-	4,150,430
<u>17,008,552</u>	<u>-</u>	<u>-</u>	<u>17,008,552</u>
3,463,510	(3,670,134)	206,624	-
<u>\$ 4,941,824</u>	<u>\$ 11,076,676</u>	<u>\$ 5,742,141</u>	<u>\$ 21,760,641</u>

South Dakota State University Foundation
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets (Deficit) December 31, 2011	\$ (19,377,638)	\$ 27,880,008	\$ 104,644,286	\$ 113,146,656
Change in net assets	<u>4,941,824</u>	<u>11,076,676</u>	<u>5,742,141</u>	<u>21,760,641</u>
Net Assets (Deficit) December 31, 2012	(14,435,814)	38,956,684	110,386,427	134,907,297
Change in net assets	<u>3,194,533</u>	<u>19,337,570</u>	<u>10,395,424</u>	<u>32,927,527</u>
Net Assets (Deficit) December 31, 2013	<u>\$ (11,241,281)</u>	<u>\$ 58,294,254</u>	<u>\$ 120,781,851</u>	<u>\$ 167,834,824</u>

See Notes to Consolidated Financial Statements

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Current Year</u>	<u>Restated Prior Year</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, Fees, & Auxiliaries (Net of Scholarship Allowance & Discounts)	\$ 106,734,628.88	\$ 101,517,830.19
General Sales & Services	26,373,924.83	23,921,783.40
Federal Grants & Contracts	47,141,201.19	50,132,844.65
State Grants & Contracts	5,439,114.89	5,360,247.51
Private Grants & Contracts	12,870,133.66	12,253,402.69
Loans Collected from Students	1,943,508.17	1,803,136.42
Student Loan Interest	212,810.83	213,827.05
Other Receipts	54,040.37	37,198.43
Personal Services (salaries & benefits)	(157,671,763.94)	(150,141,630.81)
Travel	(7,313,122.09)	(7,272,409.63)
Contractual Services	(38,753,296.74)	(37,083,830.61)
Supplies & Materials	(27,531,935.80)	(28,264,119.21)
Grants & Subsidies	(18,531,862.65)	(19,622,410.19)
Interest	(3,651.08)	(900.29)
Other Payments	(80,356.87)	(71,047.02)
NET CASH USED BY OPERATING ACTIVITIES	\$ (49,116,626.35)	\$ (47,216,077.42)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
General Fund Appropriations	\$ 63,440,431.95	\$ 59,408,847.00
School & Public Lands	614,489.65	617,502.26
Federal Fund Appropriations	6,891,176.00	6,749,090.50
Federal Loans Disbursements (Stafford & PLUS)	(56,839,231.00)	(58,574,243.00)
Federal Loan Receipts (Stafford & PLUS)	56,839,231.00	58,574,243.00
Higher Education Facilities Fund	484,152.89	1,156,346.22
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Federal Capital Contribution - Student Loans	315,961.00	31,918.00
Net Change in Funds Held for Others	(582,523.21)	404,025.93
Other Non-Operating Revenues & Additions	22,281.90	19,883.62
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCIAL ACTIVITIES	\$ 71,435,970.18	\$ 68,637,613.53
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Higher Education Facilities Fund	\$ 4,878,702.54	\$ 2,867,318.53
SD Building Authority Bond Proceeds	7,969,419.97	2,371,485.58
Purchase of Capital Assets	(52,067,098.44)	(61,103,440.51)
Loss on Disposal - Surplus Sales	35,852.00	-
Proceeds from Bond Issue	7,000,000.00	-
Principal Payments on Bonds & Capital Leases	(4,477,135.02)	(2,955,471.76)
Interest Payments on Bonds & Capital Leases	(5,462,698.56)	(5,719,333.04)
Bond Issuance Costs	(3,231.38)	-
Notes Payable Financing Agreement	(165,000.00)	(165,000.00)
BAB Subsidy	558,810.52	618,010.38
BOR M&R General Funds	245,765.05	-
Capital Grants & Contracts	22,462,070.93	11,285,851.54
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (19,024,542.39)	\$ (52,800,579.28)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	\$ 716,586.27	\$ 1,030,932.07
Unrealized Gain (Loss) on Investments	3.90	(3.44)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 716,590.17	\$ 1,030,928.63
Net (Decrease) in Cash	\$ 4,011,391.61	\$ (30,348,114.54)
Cash - Beginning of the year	38,587,682.46	68,935,797.00
Cash - End of the year	<u>\$ 42,599,074.07</u>	<u>\$ 38,587,682.46</u>

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Current Year	Restated Prior Year
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	\$ (68,898,979.64)	\$ (63,965,654.45)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	18,359,345.25	16,579,465.85
Amortization of Intangibles	18,778.08	10,298.35
Bad Debt Expense	205,488.00	5,875.00
Loan Cancellation Expense	323,632.98	374,484.80
Change in Assets and Liabilities:		
Accounts Receivable Students	(1,437,984.16)	81,802.12
Accounts Receivable - Dept	68,876.31	(643,548.35)
Prepaid Expenses	(376,513.03)	(287,605.50)
Notes Receivable	(490,933.71)	(541,729.13)
Due From Federal Sources	1,096,188.43	692,595.79
Due From Primary Government	(52,766.32)	(63,077.32)
Due From Other Component Units	(401,404.39)	307,685.35
Inventories	(403,613.51)	175,430.96
Other Assets	45,000.00	45,000.00
Accounts Payable	1,822,790.84	(317,013.51)
Accrued Wages and Benefits	534,836.00	(173,107.16)
Due To Primary Government	(47,319.93)	31,839.65
Due To Other Component Units	53,777.55	5,410.89
Compensated Absences Payable	417,277.81	456,356.68
Unearned Revenue	5,940.04	9,412.56
Student Deposits	40,957.05	-
NET CASH USED BY OPERATING ACTIVITIES	\$ (49,116,626.35)	\$ (47,216,077.42)
Non-Cash Investing, Capital and Financing Activities:		
Loss on Disposal of Fixed Assets	\$ (144,209.48)	\$ (113,721.04)

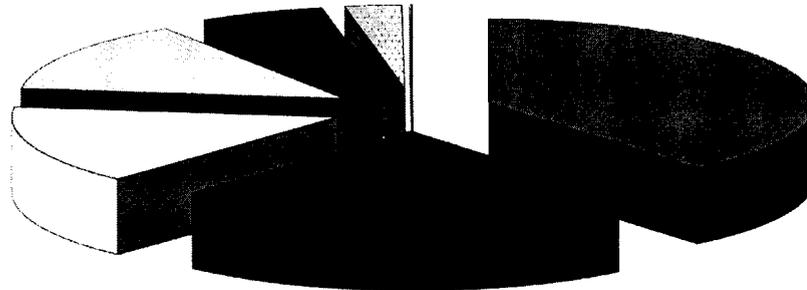
The accompanying notes to the South Dakota State University financial statements are an integral part of this statement.

South Dakota State University Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 32,927,527	\$ 21,760,641
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	368,106	327,757
Net realized and unrealized gains and losses	(8,786,906)	(6,410,350)
(Gain) loss on the disposal of property and property held for investment	(74,520)	289,061
Provision for uncollectible receivables	234,379	42,359
Change in value of cash surrender value of life insurance	(39,407)	(22,173)
Change in value of beneficial interest in perpetual trust	(130,269)	(57,940)
Unrestricted and temporarily restricted non-cash gifts	(11,158,251)	(1,656,951)
Restricted for long-term purposes		
Permanently restricted gifts	(6,927,224)	(838,486)
Permanently restricted gifts other than cash	(1,634,702)	(3,789,713)
Changes in assets and liabilities		
Promises to give	3,438,295	(3,470,843)
Trusts held by others	(553,209)	(179,047)
Prepaid expenses, inventory, and other assets	321,859	228,779
Life estates	-	(100,000)
Accounts payable, accrued expenses, and other liabilities	341,827	(3,442,169)
Due to SDSU - scholarships	(20,079)	(648,928)
Investments held for others	(5,833)	(9,231)
Gift annuities and life income agreements	(10,766)	64,719
Net Cash from Operating Activities	8,290,827	2,087,485
Investing Activities		
Proceeds from the sale of investments	51,145,561	22,686,459
Purchases of investments	(63,053,130)	(25,418,789)
Proceeds from the sale of property and property held for investment	14,220	1,286,378
Purchases of property and property held for investment	(535,403)	(4,217,907)
Receipts on notes, contracts, and other receivables	343,042	297,287
Net Cash used for Investing Activities	(12,085,710)	(5,366,572)
Financing Activities		
Proceeds from notes payable	199,500	997,039
Payments on notes payable	(2,635,677)	(2,578,554)
Proceeds from permanently restricted contributions	4,836,011	4,069,872
Net Cash from Financing Activities	2,399,834	2,488,357
Net Change in Cash and Cash Equivalents	(1,395,049)	(790,730)
Cash and Cash Equivalents, Beginning of Year	6,247,016	7,037,746
Cash and Cash Equivalents, End of Year	\$ 4,851,967	\$ 6,247,016

See Notes to Consolidated Financial Statements

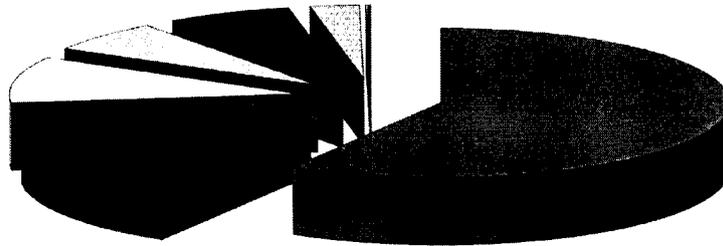
OPERATING REVENUES
\$201,939,990
SDSU & ATTACHED AGENCIES



- Tuition & Fees - \$78,737,872
- Federal Grants & Contracts - \$46,044,163
- Auxiliaries - \$30,429,432
- General Sales & Services - \$27,942,204
- Private & Other Grants & Contracts - \$12,762,721
- State Grants & Contracts - \$5,756,747
- Student Loan Interest - \$212,811
- Other Revenues & Additions - \$54,040

	FY14	FY13	INCREASE (DECREASE)
Tuition & Fees	78,737,872	76,557,971	2,179,901
Auxiliaries	30,429,432	27,186,468	3,242,964
General Sales & Services	27,942,204	24,000,923	3,941,281
Federal Grants & Contracts	46,044,163	49,606,203	(3,562,040)
State Grants & Contracts	5,756,747	5,200,480	556,267
Private & Other Grants & Contracts	12,762,721	12,552,123	210,598
Student Loan Interest	212,811	213,827	(1,016)
Other Revenues & Additions	54,040	106,348	(52,308)
TOTAL OPERATING REVENUE	201,939,990	195,424,343	6,515,647

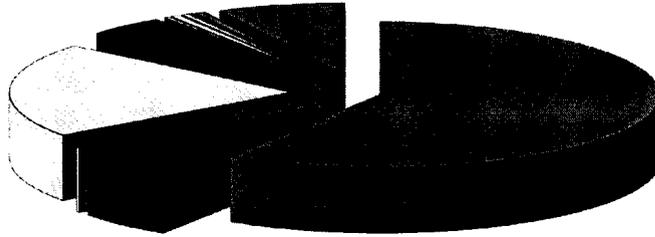
OPERATING EXPENSES
\$270,838,969
SDSU & ATTACHED AGENCIES



- Personal Services - \$158,623,878
- Contractual Services - \$39,452,152
- Supplies & Materials - \$27,362,369
- Depreciation - \$18,359,345
- Grants & Subsidies - \$18,955,194
- Travel - \$7,454,124
- Loan Cancellation Expense - \$323,633
- Bad Debts - \$205,488
- Interest - \$3,651
- Amortization of Intangibles - \$18,778
- Other Operating Expenses - \$80,357

	FY14	FY13	INCREASE (DECREASE)
Personal Services	158,623,878	150,424,880	8,198,998
Travel	7,454,124	7,250,829	203,295
Contractual Services	39,452,152	37,057,520	2,394,632
Supplies & Materials	27,362,369	28,046,510	(684,141)
Grants & Subsidies	18,955,194	19,568,188	(612,994)
Loan Cancellation Expense	323,633	374,485	(50,852)
Bad Debts	205,488	5,875	199,613
Depreciation	18,359,345	16,579,466	1,779,879
Interest	3,651	900	2,751
Amortization of Intangibles	18,778	10,298	8,480
Other Operating Expenses	80,357	71,047	9,310
TOTAL OPERATING EXPENSES	270,838,969	259,389,998	11,448,971

NON-OPERATING REVENUE
\$107,616,985
SDSU & ATTACHED AGENCIES



- General Fund Appropriations - \$63,438,052
- Federal Fund Appropriations - \$6,269,384
- Capital Appropriations - \$245,765.05
- Capital Grants & Contracts - \$22,556,517
- Capital HEFF - \$4,878,703
- Investment Income - \$349,054
- School & Public Lands - \$616,870
- Higher Education Facilities Fund - \$484,153
- Endo/Ecto Parasiticide Tax - \$250,000
- BAB Subsidy - \$558,811
- Other Non-Operating Revenue & Additions - \$18,034
- SD Building Authority Bond Proceeds - \$7,951,642

	FY14	FY13	INCREASE (DECREASE)
General Fund Appropriations	63,438,052	59,408,847	4,029,205
School & Public Lands	616,870	617,502	(632)
Federal Fund Appropriations	6,269,384	8,166,319	(1,896,935)
Capital Appropriations	245,765	-	245,765
Higher Education Facilities Fund	484,153	1,156,346	(672,193)
Endo/Ecto Parasiticide Tax	250,000	250,000	-
Investment Income	349,054	714,732	(365,678)
BAB Subsidy	558,811	618,010	(59,199)
Other Non-Operating Revenue & Additions	18,034	29,764	(11,730)
Capital Grants & Contracts	22,556,517	11,313,242	11,243,275
Capital HEFF	4,878,703	2,867,319	2,011,384
SD Building Authority Bond Proceeds	7,951,642	1,951,994	5,999,648
TOTAL NON-OPERATING REVENUE	107,616,985	87,094,075	20,522,910

SOUTH DAKOTA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION: The University has adopted the financial statement presentation required by GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion & Analysis for Public Colleges and Universities* as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and by GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required prior to FY 2002.

B. REPORTING ENTITY: The financial statements include the funds of all agencies of South Dakota State University. The agencies include University Proper, SDSU Extension & Agricultural Experiment Station. The University is governed by the South Dakota Board of Regents. The University is a component unit of the State of South Dakota and is included in the general-purpose financial statements of the State of South Dakota.

Based on the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, it was determined that the South Dakota State University Foundation is a component unit of the University. In accordance with GASB 39, the SDSU Foundation's financial statements are presented behind the statements of the University. The financial statements of the SDSU Foundation are audited by independent auditors engaged by the SDSU Foundation Board of Directors.

C. BASIS OF ACCOUNTING: The University is considered to be a special-purpose government engaged only in business-type activities. The financial statements are prepared on the accrual basis, including recognizing depreciation expense on capitalized assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Interdepartmental charges are treated as a transfer of expense per NACUBO guidelines.

D. FUND ACCOUNTING: In order to insure observance of the limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained according to the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are maintained in accordance with activities or objectives specified by donors, governmental appropriations, granting agencies, and other outside sources or regulations.

Separate funds are maintained for each funded activity; however, in the accompanying financial statements, all funds have been combined in order to present the financial statements from a comprehensive entity-wide perspective.

E. ACCOUNTS RECEIVABLE: Accounts Receivable consists of funds owed to various University departments at June 30, 2014 from external sources. Accounts

Receivable would include funds owed from students for outstanding tuition & fee charges as well as funds owed to University departments from external sources for various sales & services. The University uses the direct write-off method for uncollectible receivables.

F. NOTES RECEIVABLE: Notes receivable consist of amounts associated with various student loan programs. The allowance method is used in calculating uncollectible accounts for these receivables. Under the allowance method, a reserve is established for the projected amount that will become uncollectible. The projection for loan funds is based on current default rates and on departmental knowledge of loans considered to be uncollectible. Under the allowance method the expense is recognized as soon as the loan is projected to be uncollectible.

Notes receivable as of June 30, 2014 are \$12,137,854.43 with a corresponding allowance of \$594,691.00 for a net notes receivable of \$11,543,163.43.

G. INVESTMENTS: Investments consist of funds on deposit with the State Treasurer which are pooled by the State Investment Council for investment purposes. Investments are reported at cost as market values are not readily available for funds on deposit with the State Treasurer. Interest earnings on Current Funds investments are not received by the University but are credited to the State of South Dakota's General Fund with the exception of funds for School & Public Lands, Foundation Seed Stock, Seed Certification, Self-Support Tuition, Auxiliary Enterprises and Loans, which do receive interest earnings. In addition, interest earnings are received for Investments in the Unexpended Plant Fund, Renewals and Replacements Fund and Retirement of Indebtedness Fund. Interest earnings in the Unexpended Plant Fund are primarily from the unexpended portion of the Construction accounts for various Auxiliary Enterprise renovation projects.

Investments in the Retirement of Indebtedness fund include a GNMA Investment and Federal Government Obligation funds which are held in trust by a trustee. These investments are reported at Fair Market Value. Interest earnings on the GNMA Investment and Federal Government Obligation funds are received by the University and are included in Investment Income in the Retirement of Indebtedness Fund. The GNMA Investment and Federal Government Obligation funds were liquidated in FY14.

Interest earnings are credited to the Perkins Student Loan Program, Nursing Student Loan Program, Nursing Faculty Loan Program, and Health Professions Student Loan Program based upon the State Investment Council prorated rate of return.

Other investments include patronage equities which consist of equity credits from various vendors resulting from business conducted with the vendors.

H. INVENTORIES: Inventories of supplies and materials are reported at original cost or last invoice price except for Foundation Seed Stock inventory which is reported at market (lower of cost or market), University Bookstore inventory which is reported at estimated cost (retail value less markups), Dairy Plant inventory which is reported at estimated cost of production and Livestock inventories which are reported at June 30, 2014 market price. All reported inventories are resalable or consumable. Changes in inventory valuations are reported as a portion of expenditures.

I. DUE TO/DUE FROM: Due From Federal Sources represent expenditures made on grants or Federal Appropriations for which reimbursement has not yet been received.

Due From Primary Government represents funds owed from various state agencies of South Dakota, outside of Higher Education. Due to Primary Government represents funds owed to various state agencies of South Dakota, outside of Higher Education.

Due From Other Component Units represent funds owed from other South Dakota public universities, the South Dakota School for the Deaf, the South Dakota School for the Blind & Visually Impaired, the South Dakota Board of Regents and the South Dakota Building Authority (for expenditures to be reimbursed by SDBA and for debt financing between SDSU and the SDBA). Due To Other Component Units represent funds owed to other South Dakota public universities, the South Dakota School for the Deaf, the South Dakota School for the Blind & Visually Impaired and the South Dakota Board of Regents.

All funds owed to or from other University accounts have been eliminated for financial reporting purposes.

J. CAPITAL ASSETS: Equipment includes \$39,221,329.41 for library books and \$135,548.65 in Nursing films. Library books and films as well as the Nursing films are added to the inventory listing at cost during the year of their purchase. When library books and films are deleted from the inventory listing, they are valued and deleted at the average cost calculated at the end of the previous year. Nursing films are deleted at actual cost unless this information is unobtainable, in which case a reasonable cost is assigned to the films for deletion purposes. Equipment is capitalized if the unit cost is \$5,000 or more and has a useful life of 1 year or more.

The South Dakota Art Museum collection of \$8,669,910.50 is a non-depreciable asset and is valued at estimated fair market value. The art collection includes all items in the collection including those items that are less than \$5,000.00. Equipment additions to the art collection are based on the actual purchase price of the item or on the estimated fair market value of the item on the date of the gift. Equipment deletions to the art collection are based on the carrying cost of the item on the date of disposal.

The Higher Education Facilities Fund allocates 20% of tuition and system fees deposited with the Board of Regents System Tuition Fund from all state supported universities in South Dakota to building improvements.

Land, buildings & building improvements, land improvements and infrastructure are capitalized at cost at the time of purchase or, if contributed, at the appraised value at the date of gift. The University capitalized major additions to plant assets when the addition increased the value by \$100,000 or more for buildings & building improvements and \$50,000 or more for land improvements and infrastructure.

Major additions to plant assets which are not substantially completed at year end are included in the financial statements as construction in progress. Major additions are transferred to buildings & building improvements, or land improvements, or infrastructure at the earliest occurrence of substantial completion of the project, occupancy or when the asset is placed in service.

The University depreciated buildings & building improvements, land improvements, infrastructure and equipment. Buildings are depreciated over 50 years for a major structure, 25 years for pole and storage buildings and 10 years for minor structures. Building improvements and land improvements are depreciated over 20 years. Infrastructure is depreciated over a range of 20 to 50 years. Equipment is depreciated over various useful lives based on classes of assets. Library books are depreciated based on a 10 year average.

K. INTANGIBLE ASSETS: Intangible Assets represent expenditures made to purchase licensed software from external sources with an initial useful life extending beyond one fiscal year. The Intangible Assets include a Facilities AIM software system, StarRez Software for Residential Life and a Parking Management System. Intangible Assets are reported on the University's financial statements net of accumulated amortization. The Intangible Assets of \$354,144.37 consists of \$389,214.10 in cost less accumulated amortization of \$35,069.73. The Intangible Assets are being amortized over the estimated useful life of the software.

L. DEFERRED OUTFLOWS OF RESOURCES: Deferred Outflows of Resources is a consumption of net position by the University that is applicable to a future reporting period. The University reported \$137,531.12 of Deferred Outflow on Debt Refunding resulting from the issuance of the Series 2014A bonds which was a current refunding of the Series 2004 bonds. The Deferred Outflow on Debt Refunding is the difference between the reacquisition price and the net carrying amount of the old debt. The Deferred Outflow on Debt Refunding is being amortized over the life of the old debt.

M. NET POSITION: Net Position is classified according to external donor restrictions or availability of assets for satisfaction of University obligations.

Net Investment in Capital Assets represents the net value of capital assets (land, buildings & building improvements, land improvements, infrastructure, construction in progress, equipment, South Dakota Art Museum collection and intangible assets) less the outstanding debt incurred to acquire or construct the asset.

Nonexpendable Restricted Net Position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Expendable Restricted Net Position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

N. SCHOLARSHIP ALLOWANCES AND STUDENT AID: Tuition and fee revenue has been reported net of scholarship allowances and student aid in accordance with the alternative method prescribed by NACUBO. Under the alternative method, tuition and fee revenue is reduced by the amount that was paid for by certain types of financial aid, such as PELL grants, scholarships and other governmental grants, etc. The alternative method eliminated the double reporting of revenue, first as financial aid revenue and then as tuition and fee revenue. Using the alternative method, the revenue is recognized for the financial aid grants, scholarships, etc. while the financial aid expense and tuition and fee revenue is eliminated for the amount of financial aid applied to student accounts.

O. REVENUE RECOGNITION: The University uses accrual basis accounting and therefore recognizes revenues when earned. Current year revenue is recognized for all outstanding accounts receivable owed to the University from external sources as of June 30, 2014.

P. OPERATING AND NON-OPERATING REVENUES: Operating revenues include tuition and fee revenue, departmental sales & services, sales & services of auxiliary enterprises, Loan funds and exchange transactions. Most of the revenue generated from the University's federal, state and private grants have been determined to be exchange transactions.

Non-operating revenues include state appropriations, federal appropriations, non-exchange transactions and most investment income.

II. CASH AND CASH EQUIVALENTS

For reporting purposes, cash includes cash on hand, cash in local banks, and cash in the State Treasury. Cash equivalents are reported at fair market value. Cash equivalents include short-term investments with original maturities of three months or less.

III. RETIREMENT PLAN

South Dakota Retirement System, Plan Description: The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system established to provide retirement, disability and survivor benefits for employees of the state and its political subdivisions. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures and required supplementary information. The SDRS is considered part of the state of South Dakota financial reporting entity and is included in the state's financial report as a pension trust fund. Copies of the separately issued financial report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution.

IV. STATE APPROPRIATIONS

The State General Fund Appropriation for fiscal year 2014 was \$63,438,052.00. Effective July 1, 1994, the University no longer deposits state support tuition and system fees into the State General Fund but rather deposits them into the Board of Regents System Tuition Fund.

V. TUITION AND FEES

The University reports state support tuition and system fees revenue it receives from the Board of Regents System Tuition Fund. For fiscal year 2014, the University received \$40,785,950.61 from the Board of Regents System Tuition Fund which consisted of \$33,098,202.75 for State Support tuition and \$7,687,747.86 for Salary Competitiveness fee.

The University collected a total of \$50,143,119.56 in state support tuition and system fees for fiscal year 2014. Of the \$50,143,119.56, \$41,893,277.63 was remitted to the Board of Regents System Tuition Fund while \$8,249,841.93 was remitted to the Higher Education Facilities Fund. The

\$41,893,277.63 includes \$7,687,747.86 of Salary Competitiveness fee, \$342,828.13 of Technology fee and \$863,333.94 of Science Lab Facilities Bond. These amounts are not reported on the University's financial statements.

The University also reported \$15,318,647.96 of Self Support tuition and \$42,641,851.99 of student fees which included the Salary Competitiveness fee received from the Board of Regents System Tuition Fund of \$7,687,747.86.

VI. STUDENT FEES

A system-wide pool of funds has been created for the Student Information System (SIS) and computer upgrade expenses for the Regents Information System (RIS). Effective during the second half of FY2001, an annual allocation was determined based on a three year average of actual RIS support. The allocation amount owed to RIS by each campus is determined on an annual basis. The FY14 allocation to the Regents Information System was \$1,292,426.00. The allocation amount was expended from tuition and fees collected from students.

For FY14, an additional \$384,582.00 was expended from student fees to reimburse the State General Fund for the Series 2007 Critical M&R Bond Debt Service payments.

VII. ENDOWMENT AND SIMILAR FUNDS

The assets of the Endowment and similar funds administered by the Department of School and Public Lands have not been included in the financial statements because the University does not actively participate in the administration of the funds.

Asset information for the Endowment and similar funds administered by the Department of School and Public Lands as of June 30, 2014 may be found on the Department of School & Public Lands' web site at www.sdpubliclands.com/support/index.shtm.

VIII. COMMITMENTS

The University had outstanding commitments of \$20,031,222 for architectural/engineering and construction contracts for Capital and Non-Capital Improvement Projects as of June 30, 2014. These contracts are filed in Facilities and Services. The \$20,031,222 does not include contracts filed in other departments nor does it include some of the smaller Non-Capital projects. The majority of the \$20,031,222 will be expended by June 30, 2015.

IX. RELATED PARTIES

The financial statements of South Dakota State University, which is a component unit of the State of South Dakota, do not include the assets, liabilities or net position of affiliated organizations, whose financial statements are separately audited. Each organization is described below:

The SDSU Foundation is a non-profit corporation founded in 1946 to receive and administer private gifts made in support of programs at South Dakota State University.

The Enterprise Institute is a private, non-profit corporation that provides customized business development and commercialization services to researchers, inventors, and start-up companies in South Dakota. The Enterprise Institute was created for the mutual benefit of South Dakota State University and the city of Brookings, SD.

X. STUDENT DEPOSITS

Student Deposits of \$416,755.43 consist of funds held for students for the University's debit card program, Federal Stafford loan program, Federal PLUS Loan program, Student Alternative Loan program, Nursing Alumni program, Federal Direct Loan program, Residence Hall room deposits, Nursing deposits, Pharmacy deposits, and Cashiers Clearing deposits. Student Deposits consist primarily of cash assets.

XI. FUNDS HELD FOR OTHERS

Funds Held for Others consist of \$271,816.45 in funds held for various student & affiliated organizations. The funds held for others are principally cash.

XII. CAPITAL ASSETS

A summary of changes in Capital Assets follows:

	Balance 7/1/2013	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2014
Land	9,135,997.70				9,135,997.70
Land Improvements	13,520,576.14		971,923.17		14,492,499.31
Infrastructure	19,104,448.55		2,721,681.80		21,826,130.35
Buildings & Improv	365,799,140.89		52,157,406.98	(440,681.00)	417,515,866.87
SD Art Museum	8,656,860.50		13,050.00		8,669,910.50
Equip. & Other Property	100,235,159.18	57,573.78	5,130,552.79	(3,475,569.11)	101,947,716.64
Total	<u>516,452,182.96</u>	<u>57,573.78</u>	<u>60,994,614.74</u>	<u>(3,916,250.11)</u>	<u>573,588,121.37</u>
Less Accumulated Depreciation:					
Land Improvements	(5,756,600.05)	(3.95)	(449,142.00)		(6,205,746.00)
Infrastructure	(5,177,531.87)		(454,422.00)		(5,631,953.87)
Buildings & Improv	(118,262,601.11)	(982,031.84)	(11,423,282.05)	388,476.00	(130,279,439.00)
Equip. & Other Property	(72,447,527.52)	(15,127.41)	(6,032,499.20)	3,347,712.63	(75,147,441.50)
Total Accum Depr	<u>(201,644,260.55)</u>	<u>(997,163.20)</u>	<u>(18,359,345.25)</u>	<u>3,736,188.63</u>	<u>(217,264,580.37)</u>
Net Capital Assets	<u>314,807,922.41</u>	<u>(939,589.42)</u>	<u>42,635,269.49</u>	<u>(180,061.48)</u>	<u>356,323,541.00</u>

XIII. CONSTRUCTION IN PROGRESS

A summary of changes in Construction in Progress follows:

	Balance 7/1/2013	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2014
Construction In Progress	<u>63,576,883.81</u>	<u>22,713.51</u>	<u>46,785,867.40</u>	<u>(55,851,011.95)</u>	<u>54,534,452.77</u>

XIV. NET INVESTMENT IN CAPITAL ASSETS

The Net Position category, Net Investment in Capital Assets, represents the total cost of the fixed assets, less accumulated depreciation, less any outstanding debt pertaining to the fixed assets.

XV. LONG-TERM LIABILITES

Long-Term liabilities include bonds payable, notes payable, obligations under capital leases, compensated absences and the federal capital contributions to the federal loan programs.

	Interest Rate	Maturity Date	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Current Portion
Leases & Bonds Payable:							
Lease Obligations		2038	37,087	1,902,302	(61,805)	1,877,584	48,110
Notes Payable		2017	660,000		(165,000)	495,000	165,000
Revenue Bonds Payable:							
Series 2004 Bonds	2.50%- 5.00%	2014	19,520,000		(19,520,000)	0	0
Series 2005A Bonds	4.00%- 5.00%	2030	2,415,000		(95,000)	2,320,000	100,000
Series 2006 Bonds	3.92%	2026	5,880,000		(355,000)	5,525,000	370,000
Series 2009 Bonds	2.15%- 6.25%	2034	30,445,000		(1,020,000)	29,425,000	1,045,000
Series 2011 Bonds	3.00%- 5.00%	2036	57,700,000		(1,505,000)	56,195,000	1,550,000
Series 2014A Bonds	3.00%- 5.00%	2025	0	22,865,000		22,865,000	1,455,000
Sub-Total			<u>116,657,087</u>	<u>24,767,302</u>	<u>(22,721,805)</u>	<u>118,702,584</u>	<u>4,733,110</u>
Other Long-Term Liabilities:							
Compensated Absences			14,188,257	5,559,362	(5,142,084)	14,605,535	4,822,528
Federal Capital Contributions			10,446,436	315,961		10,762,397	0
Sub-Total			<u>24,634,693</u>	<u>5,875,323</u>	<u>(5,142,084)</u>	<u>25,367,932</u>	<u>4,822,528</u>
Total Long-Term Liabilities			<u>141,291,780</u>	<u>30,642,625</u>	<u>(27,863,889)</u>	<u>144,070,516</u>	<u>9,555,638</u>

Federally funded loans to students (Perkins Loan Program, Health Profession Loan Program, and Nursing Loan Program) and Compensated Absences have been determined to be long-term liabilities.

Obligations Under Capital Leases are lease agreements to purchase equipment and to partially finance the cost of construction of the Cow/Calf Unit through the South Dakota Building Authority. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2014.

The annual requirements to amortize all revenue Capital Leases outstanding as of June 30, 2014, including interest payments of \$1,361,184.30 are as follows:

Fiscal Year	Principal	Interest	Total
2015	48,109.68	86,958.80	135,068.48
2016	48,555.02	86,593.16	135,148.18
2017	48,986.41	86,054.70	135,041.11
2018	49,866.94	85,198.90	135,065.84
2019	50,954.87	84,103.30	135,058.17
2020-2024	295,744.05	379,653.70	675,397.75
2025-2029	377,449.59	297,936.30	675,385.89
2030-2034	481,183.55	193,645.60	674,829.15
2035-2038	476,734.13	61,039.84	537,773.97
	<u>1,877,584.24</u>	<u>1,361,184.30</u>	<u>3,238,768.54</u>

Notes Payable is a financing agreement between South Dakota State University and the SDSU Foundation for the new Equestrian Facility. SDSU will make annual payments to the SDSU Foundation of \$165,000 per year for a period of ten years. The last payment is due during FY17. Payments will come from General Activity Fees designated for Title IX compliance. The balance of the Notes Payable was \$495,000 as of June 30, 2014.

Revenue Bonds Payable are authorized by the Board of Regents and were issued to finance the construction of residence halls, food service facilities, expansion of the Student Union, construction of the Wellness Center and for parking lot development. The revenue bonds payable outstanding as of June 30, 2014 is as follows:

Housing & Auxiliary Facilities Revenue Bonds-Series 2005A Residence Hall Renovation Interest at 4.00% - 5.00% Annually to 2030	2,320,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2006 Wellness Center, Food Service and Res Hall Improvements Interest at 3.92% Annually to 2026	5,525,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2009 New Residence Halls, Dining Expansion and Parking Interest at 2.15% - 6.25% Annually to 2034	29,425,000

Housing & Auxiliary Facilities Revenue Bonds-Series 2011 New Residence Halls, Union Expansion/Dining, Family Student Housing and Parking Expansion Interest at 3.00% - 5.00% Annually to 2036	56,195,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2014A Suite Style Res Hall/Union Expansion/Res Hall Renovation Interest at 3.00% - 5.00% Annually to 2025	22,865,000
Total	116,330,000

These bonds are not collateralized. Payment comes from the pledged net revenues from the operation of the residence halls, food service, Student Union, Wellness Center and parking operations. The FY14 pledged net revenue for the University was \$12,246,423.10.

The Series 2009 bonds were issued as Build America Bonds. Under the current existing procedures, the University is eligible to receive a Build America Bond Subsidy equal to approximately 35% of the interest payment then due, provided that the subsidy request is filed on a timely basis.

On January 9, 2014, the South Dakota Board of Regents (SDBOR) issued \$22,865,000 in South Dakota State University Housing & Auxiliary Facilities Revenue Bonds, Series 2014A to finance new construction as well as refund the Series 2004 bonds (Housing & Auxiliary Facilities). The refunding portion of the Series 2014A bonds had an average interest rate of 4.69 percent and was used to refund \$17,965,000 of outstanding Series 2004 bonds with an average interest rate of 4.79 percent.

The net refunding portion of the Series 2014A bonds of \$18,393,931.25 was deposited in trust with an escrow agent to provide for the current refunding of the Series 2004 bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the University financial statements.

The Board of Regents refunded the SDSU portion of the debt to reduce its total debt service payments over the next 10 years by \$2,155,272.64 and obtain a present value savings of \$1,820,514.70.

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2014, including interest payments of \$62,996,171.80 are as follows:

Fiscal Year	Principal	Interest	Total
2015	4,520,000.00	5,571,554.02	10,091,554.02
2016	4,860,000.00	5,401,220.21	10,261,220.21
2017	5,100,000.00	5,208,179.63	10,308,179.63
2018	5,300,000.00	4,981,138.57	10,281,138.57
2019	5,515,000.00	4,735,350.13	10,250,350.13
2020-2024	31,500,000.00	19,373,034.75	50,873,034.75
2025-2029	25,585,000.00	11,859,024.13	37,444,024.13
2030-2034	26,270,000.00	5,443,170.36	31,713,170.36
2035-2036	7,680,000.00	423,500.00	8,103,500.00
Total	116,330,000.00	62,996,171.80	179,326,171.80

The Revenue Bonds Payable are reported on the Statement of Net Position net of bond premiums and bond discounts as shown below:

	Total Bonds Payable	Short-Term Portion	Long Term Portion
Revenue Bonds Payable	\$ 116,330,000.00	\$ 4,520,000.00	\$ 111,810,000.00
Premium	5,215,955.36	364,831.28	4,851,124.08
Original Issue Discount	(62,078.75)	(3,103.94)	(58,974.81)
Per Statement of Net Position	<u>\$ 121,483,876.61</u>	<u>\$ 4,881,727.34</u>	<u>\$ 116,602,149.27</u>

COMPENSATED ABSENCES:

Annual leave is earned by State of South Dakota employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balance. At June 30, 2014, a liability existed for accumulated annual leave calculated at the employees' June 30, 2014 pay rates. The accrued annual leave liability for the University as of June 30, 2014 was \$5,420,259.28. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of the employees' annual compensation. At June 30, 2014, a liability existed for accumulated sick leave calculated at the employees' June 30, 2014 pay rates in the amount of \$9,185,275.54.

FEDERAL CAPITAL CONTRIBUTION:

The Federal Capital Contribution represents the funds that would be owed to the federal government if the federal loan programs were eliminated.

XVI. LITIGATION

The University is involved in various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the resolution of these lawsuits will not have a material effect upon the University's financial position.

XVII. RECONCILIATION OF GASB 34 & COLLEGE AUDIT GUIDE MODELS

	Restated Balance 7/1/2013	FY14 Changes	Balance 6/30/2014
Fund Balances, College & University Audit Guide	506,229,835.45	48,262,630.33	554,492,465.78
Model Differences:			
Accumulated Depreciation	(201,644,260.55)	(15,620,319.82)	(217,264,580.37)
Reclassification of Federal Loan Programs	(10,446,436.42)	(315,961.00)	(10,762,397.42)
Net Position total per SNP & SRECNP	<u>294,139,138.48</u>	<u>32,326,349.51</u>	<u>326,465,487.99</u>

XVIII. RISK MANAGEMENT

The Office of Risk Management of the Bureau of Administration is the insurance, loss control and safety resource for all state agencies within South Dakota. The responsibilities of the Office of Risk Management include protecting the State's assets; providing a safe environment for State employees and for the general public who come in contact with State employees or property as services are provided; minimizing the possible interruptions of vital public services; safeguarding that exposures to financial loss are discovered and handled appropriately; reducing the costs and consequences of accidents, including insurance premiums, through effective safety management.

Tort liability coverage is provided to state employees under the Public Entity Pool for Liability (PEPL). State law provides that sovereign immunity is waived to the extent that coverage is provided either through the purchase of insurance or an arrangement such as the State has with PEPL. Therefore, the "Agreement" and "Memorandum of Coverage" between the State and PEPL carve out the instances where the State waives sovereign immunity and agrees to cover damages for which an employee becomes liable. Coverage under PEPL includes general liability, law enforcement liability, public official's errors and omissions liability, automotive liability and some medical malpractice liability. The coverage limit under PEPL is \$1,000,000 per occurrence.

XVIV. RESTRICTED NET POSITION

The University had a restricted non-expendable net position for Loans of \$2,135,736.12 which consisted primarily of Cash and Notes Receivable issued to students less estimated allowance for uncollectible receivables less Federal Capital Contributions which represents the funds that would be owed to the federal government if the federal loan programs were eliminated.

The University had a restricted expendable net position for scholarships & fellowships of \$153,725.35 which consisted primarily of funds available to be expended from outside scholarship sources.

The University had Other restricted expendable net position of \$3,975,832.54 which consisted of \$1,295,220.94 of net position restricted by various grants & contracts, \$2,672,148.88 of net position restricted by bond covenants to be held for use in Renewals & Replacements of buildings covered by various bond covenants & \$8,462.72 of net position restricted by federal appropriations.

XX. RESTATEMENT OF FY13 FINANCIAL STATEMENTS

The FY13 financial statements have been restated due to the implementation of GASB 65 *Items Previously Reported as Assets and Liabilities*. As a result of the restatement, Unamortized Issuance Costs of \$1,129,930.16 which had previously been reported as an asset was expensed in FY13 as Bond Issuance Expense with the corresponding reduction in Unrestricted Net Position as of 06-30-13 of \$1,129,930.16.

XXI. PRIOR PERIOD ADJUSTMENTS

The University had prior period adjustments which decreased the beginning Net Position total by \$685,259.36.

Summary of Prior Period Adjustments:

<u>June 30, 2013 Asset/Liability Correction</u>	<u>Effect on Net Position</u>
Accounts Receivable Overstated	(44,797.00)
Construction in Progress Understated	22,713.51
Buildings & Building Improvements Overstated	(982,031.84)
Land Improvements Overstated	(3.95)
Equipment & Other Property Understated	42,446.37
Accounts Payable Overstated	49,332.83
Accrued Wages & Benefits Overstated	67,941.28
Student Deposits Overstated	41,778.41
Unearned Revenue Overstated	79,038.56
<u>Agency Funds Held for Others Overstated</u>	<u>38,322.47</u>
Net Change to Beginning Net Position	<u>(685,259.36)</u>

Note 1 - Principal Activity and Significant Accounting Policies

Principles of Consolidation

The financial statements include the consolidated accounts of South Dakota State University Foundation (the Foundation), Opportunities Farm (the Farm), Enterprise Institute (the Enterprise), and MightyFly SD, Inc. (MightyFly), (collectively, the Organization). All material intercompany balances and transactions have been eliminated.

Principal Business Activity

The Foundation is an independent organization established for the purpose of raising, holding, and administering funds for the benefit of South Dakota State University (SDSU).

The Farm was established to operate a farm and cattle feedlot operation received as a gift to provide opportunities for research, student instruction, scholarships, and internships to benefit students attending SDSU. Members of the Farm's Board of Governors are subject to ratification by the Board of Governors of the Foundation, and the Farm is under common management with the Foundation.

The Enterprise was incorporated to support and enhance scientific research and educational opportunities for faculty and students at SDSU. The Enterprise also educates students, faculty, and members of the independent inventor community about the multi-faceted nature and impact of intellectual property issues. Members of the Enterprise's Board of Directors are subject to ratification by the Foundation's Board of Governors, and the Enterprise is under common management with the Foundation.

MightyFly's principal asset is an 8 passenger airplane. MightyFly leases the airplane to SDSU under a five-year lease agreement that provides for lease payments of \$74,100 per year. SDSU is responsible for all expenses related to the operations and maintenance of the airplane. MightyFly pays annual dividends to the Foundation approximately equal to the lease payments received from SDSU. The Foundation is MightyFly's sole shareholder.

Tax Exempt Status

The Foundation, the Farm, and the Enterprise are exempt from federal income tax as non-profit corporations under Section 501(c)(3) of the Internal Revenue Code. These entities are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS and are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. The Farm and the Enterprise have each determined they are not subject to unrelated business income tax and have not filed Form 990-T. MightyFly is a C Corporation subject to federal income tax and is annually required to file a U.S. Corporation Income Tax Return (Form 1120).

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions at December 31, 2013 and 2012 that are material to the consolidated financial statements. Future accrued interest and penalties related to unrecognized tax benefits and liabilities will be recognized in income tax expense if such interest and penalties are incurred. The Farm and the Enterprise are subject to U.S. Federal tax examinations by tax authorities at the authorities' discretion. The Foundation's Form 990-T and MightyFly's Form 1120 are no longer subject to U.S. Federal, state, or local tax examinations for years before 2010.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for investment nor restricted by donors for long-term purposes of the Organization, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures of the Organization, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Financial Instruments and Credit Risks

The Organization manages deposit concentration risk by placing cash and cash equivalents with financial institutions believed by management to be credit worthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. Credit risk associated with promises to give and notes, contracts, and other receivables is considered to be limited due to high historical collection rates and because outstanding balances are primarily from donors and others that are supportive of the Organization's mission. Investments are managed by a professional investment manager whose performance is monitored by management and the Foundation's Investment Committee of the Board of Governors. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Investments

Investment purchases are recorded at cost or, if donated, at fair value on the date of the donation. Thereafter, investments other than property held in trust are measured at their fair value. Appreciation and depreciation in fair value are reflected in the period occurred. Fluctuations in the United States and global markets can have a direct effect on the value of the investments presented in the accompanying consolidated financial statements.

Property held in trust, which is not readily marketable, is recorded at cost or, if donated, the fair value of the property as of the date of the donation. The property held in trust is periodically reviewed for impairment. For the years ended December 31, 2013 and 2012, no impairment charge has been recorded.

To achieve its investment objectives, the Foundation has acquired interests in certain investments that are not readily marketable. The fair values of these investments have been determined by management using the net asset value (NAV) provided by each fund. NAV is a practical expedient used to determine the fair value of investments that do not have readily determinable fair value. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants based upon their pro rata share of their investment. Distributions from and liquidation of these investments is restricted based on specific terms of the fund agreements. The estimated values may differ materially from the values that would have been used had readily available markets for the investments existed.

Certain funds have been pooled for ease of management and to provide greater diversification of investments. Investments in equity and bond funds consist of direct ownership of investments or participation in mutual funds. Additionally, to achieve its investment objectives, the portfolio manager has the ability to invest in derivative and hedge instruments as a part of their investment strategies. While the Organization does not have discretionary control over the asset guidelines of mutual funds, it believes these instruments allow the portfolio manager to take advantage of varying market forces in order to assist the Organization in achieving its return objectives.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in gifts in the accompanying consolidated statements of activities. At times, an individual donor's promise to give may represent a substantial portion of the total outstanding promises.

Management determines the allowance for uncollectible promises to give based on management's assessment of potential bad debts and historical experience. Promises to give are written off against the allowance when they are deemed uncollectible.

Trusts Held by Others

Donors have established various split-interest agreements where the Foundation is not the trustee but is the irrevocable beneficiary of the underlying assets. The Foundation has neither possession nor control over the assets of these trusts. At the date that the Foundation receives notice of a beneficial interest in a trust held by others, a temporarily or permanently restricted gift is recorded in the consolidated statements of activities, and the Foundation's beneficial interest in the trust held by others is recorded in the consolidated statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions that market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in trusts held by others are reported at fair value in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities. Upon receipt of trust distributions and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released from restrictions or permanently restricted net assets are transferred to the endowment.

Property and Property Held for Investment

The Organization's property consists of land, buildings, and equipment. Property received as support is recorded at its fair value at the time of the gift and property purchased is recorded at cost. Property is presented in the accompanying consolidated financial statements net of accumulated depreciation of \$2,559,878 and \$2,323,203 at December 31, 2013 and 2012 respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5-40 years, and totaled \$368,106 and \$327,757 for the years ended December 31, 2013 and 2012, respectively.

Property held for investment consists of land, buildings, and equipment. Property held for investment is recorded at cost or, if donated, the fair value of the property as of the date of the donation. Property held for investment is periodically reviewed for impairment. For the years ended December 31, 2013 and 2012, no impairment charge has been recorded. All of the assets included in property held for investment will eventually be used to support SDSU.

Inventory

Inventory includes livestock and harvested crops used in the operations of the Farm. Inventory is stated at fair value less estimated costs of disposal and totaled \$911,625 and \$947,184 at December 31, 2013 and 2012, respectively.

Cash Surrender Value of Life Insurance

The Foundation is the owner or assignee and beneficiary of certain whole life insurance policies. These policies have aggregate face values totaling \$1,626,742 at December 31, 2013 and 2012.

Beneficial Interest Trusts

The Foundation is a beneficiary in several revocable trusts administered by others. The assets of these trusts are not included in the accompanying consolidated statements of financial position because the beneficiaries may be changed in accordance with provisions of the trust agreements.

The Foundation has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. The trust provides for the distribution of the net income of the trust to the Foundation; however, the Foundation will never receive the assets of the trust. At the date the Foundation receives notice of a beneficial interest, a permanently restricted gift is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the Foundation's share of the underlying trust assets. Thereafter, the beneficial interest in the trust is reported at the fair value of trust's assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

University Support

The Organization funds various construction projects and provides operations support for the benefit of SDSU. Contracts for construction projects are between SDSU and the contractors, and liabilities for expenditures incurred by departments are the responsibility of SDSU. The Organization records a liability for payment of projects and operational support expenditures when requests for reimbursement are submitted by SDSU.

Investments Held for Others

Investments held for others is primarily that portion of charitable remainder unitrusts for which the Foundation holds the asset but either the Foundation is not the beneficiary or the beneficiary designation may be changed in accordance with trust documents.

Gift Annuity and Life Income Agreements

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the period stipulated in the annuity contract. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted or restricted gift based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as a gift. The estimated present value of future payments, to be made under these agreements, discounted at rates ranging from 1.00% to 8.20%, totals \$2,730,626 and \$2,821,418 at December 31, 2013 and 2012, respectively.

The Foundation's life income agreements consist of various irrevocable charitable remainder unitrusts and pooled income funds over which the Foundation acts as trustee. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event. The trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a temporarily or permanently restricted gift until such amount is received via trust distribution and/or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any. The liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income. Investments held under life income agreements total \$11,395,402 and \$10,435,486 as of December 31, 2013 and 2012, respectively. The estimated present value of future investment income distributions to beneficiaries, discounted at rates ranging from 6.50% to 7.40% is \$6,107,402 and \$6,027,376 at December 31, 2013 and 2012, respectively.

Net Assets

Net assets, revenue, support, and gains are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets are resources over which the Board of Governors has discretionary control and are available for use in general operations.

Temporarily restricted net assets are resources currently available for use for purposes or time periods specified by the donor and income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Governors.

Permanently restricted net assets consist of a beneficial interest in a perpetual trust and gifts and bequests which have been accepted with the donor-stipulation that the principal be maintained intact in perpetuity with only the income to be utilized. Some endowments require net earnings to be permanently reinvested until a certain level of investment is attained.

Gifts

Gifts are recognized when cash, securities, unconditional promises to give, or other assets or forgiveness of liabilities are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Gifts are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Services and Assets

Many individuals, particularly board members, have contributed significant amounts of time to the activities of the Organization without compensation. However, these services do not meet the criteria for being recorded as contributions under accounting principles generally accepted in the United States of America and, accordingly, have not been recorded.

Donated property, marketable securities, and other non-cash donations are recorded as gifts at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted use to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Direct Investment Expenses

Management and bank fees paid to third parties totaled \$268,437 and \$234,573 as of December 31, 2013 and 2012 respectively, and are included in general and administrative expenses on the consolidated statements of activities.

Consolidated Statements of Cash Flows

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the consolidated statements of cash flows.

The Organization had the following non-cash transactions during 2013 and 2012:

	2013	2013
Investments received as gifts	\$ 11,896,953	\$ 4,371,935
Property and property held for investment received as gifts	896,000	1,056,786
Settlement of promise to give with issuance of note receivable	2,034,813	-
Equipment purchased through accounts payable or issuance of notes payable	212,225	34,294

Cash paid for interest totaled \$434,239 and \$536,800 for the years ended December 31, 2013 and 2012, respectively.

Reclassifications

Certain amounts from the accompanying 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. The reclassifications had no effect on previously reported net assets.

Subsequent Events

The Organization has evaluated subsequent events through July 17, 2014, the date which these consolidated financial statements were available to be issued.

Note 2 - Fair Value of Assets and Liabilities

Fair Value Measurements

Certain assets and liabilities are reported at fair value in the accompanying consolidated financial statements. Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date under current market conditions, regardless of whether that price is directly observable or is estimated using another valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows: Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset and liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs related to the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

A significant portion of the Organization's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. This includes investments in bonds that are held in mutual funds. Bonds that are not held in mutual funds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions; certificates of deposit are recorded at cost plus accrued interest. These are classified within Level 2. Management estimates the fair value of the preferred stock in a non-public company by applying market rate assumptions based on preferred stock yields, trusts held by others are valued by applying present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and the fair values of trust investments as reported by the trustees, and the fair value of the beneficial interest in perpetual trust is estimated based on the present value of the expected future cash flows. These are considered to be Level 3 measurements.

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The Organization uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair value of its investments in certain international and fixed income equity funds, an equity security hedge fund, and various private equity funds. Investments valued at NAV are classified within Level 2 if the Organization has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or within the near term; otherwise, the investments are classified within Level 3.

The Organization does not have any liabilities that are measured at fair value. The following table presents the Organization's assets that are measured at fair value on a recurring basis at December 31, 2013 and 2012:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<u>December 31, 2013</u>				
Investments				
Equity securities				
Domestic				
Large cap	\$ 30,906,239	\$ -	\$ -	\$ 30,906,239
Small and mid cap	4,020,783	-	-	4,020,783
International	33,880,103	-	-	33,880,103
Total equity securities	68,807,125	-	-	68,807,125
Certificates of deposit (cost plus accrued interest)	-	23,673,320	-	23,673,320
Bonds				
Corporate	13,484,173	248,053	-	13,732,226
Government	7,841,026	476,026	-	8,317,052
Total bonds	21,325,199	724,079	-	22,049,278
Alternative funds				
International	-	4,337,289	-	4,337,289
Fixed income	-	8,048,094	-	8,048,094
Hedge	-	-	4,660,341	4,660,341
Total alternative funds	-	12,385,383	4,660,341	17,045,724
Private equity funds	-	-	2,444,184	2,444,184
Preferred stock in non-public company	-	-	1,250,000	1,250,000
All asset funds	195,992	-	-	195,992
Property held in trust, at cost	-	-	-	1,616,968
Total investments	<u>\$ 90,328,316</u>	<u>\$ 36,782,782</u>	<u>\$ 8,354,525</u>	<u>\$ 137,082,591</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<u>December 31, 2013</u>				
Trusts held by others	\$ -	\$ -	\$ 2,098,267	\$ 2,098,267
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 967,684	\$ 967,684
<u>December 31, 2012</u>				
Investments				
Equity securities				
Domestic				
Large cap	\$ 24,698,992	\$ -	\$ -	\$ 24,698,992
Small and mid cap	2,943,792	-	-	2,943,792
International	28,013,298	-	-	28,013,298
Total equity securities	55,656,082	-	-	55,656,082
Certificates of deposit (cost plus accrued interest)	-	4,984,925	-	4,984,925
Bonds				
Corporate	12,822,477	236,756	-	13,059,233
Government	10,217,654	661,517	-	10,879,171
Total bonds	23,040,131	898,273	-	23,938,404
Alternative funds				
International	-	3,949,115	-	3,949,115
Fixed income	-	7,590,204	-	7,590,204
Hedge	-	-	4,132,148	4,132,148
Total alternative funds	-	11,539,319	4,132,148	15,671,467
Private equity funds	-	-	2,066,385	2,066,385
All asset funds	159,763	-	-	159,763
Commodity mutual funds	346,375	-	-	346,375
Property held in trust, at cost	-	-	-	1,667,762
Total investments	\$ 79,202,351	\$ 17,422,517	\$ 6,198,533	\$ 104,491,163

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<u>December 31, 2012</u>				
Trusts held by others	\$ -	\$ -	\$ 1,545,058	\$ 1,545,058
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 837,415	\$ 837,415

The following table presents a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2013:

	Hedge	Private Equity	Preferred Stock in Non-Public Company
Balance at January 1, 2013	\$ 4,132,148	\$ 2,066,385	\$ -
Adjustments to fair value	528,193	(22,383)	-
Additions	-	588,701	1,250,000
Withdrawals and payments	-	(188,519)	-
Balance at December 31, 2013	<u>\$ 4,660,341</u>	<u>\$ 2,444,184</u>	<u>\$ 1,250,000</u>

	Trusts Held by Others	Beneficial Interest in Perpetual Trusts
Balance at January 1, 2013	\$ 1,545,058	\$ 837,415
Adjustments to fair value	526,392	130,269
Additions	26,817	-
Withdrawals and payments	-	-
Balance at December 31, 2013	<u>\$ 2,098,267</u>	<u>\$ 967,684</u>

Unrealized gains and losses for assets still held at December 31, 2013 are included in the consolidated statements of activities as follows:

	Hedge	Private Equity	Trusts Held by Others	Beneficial Interest in Perpetual Trusts
Net realized and unrealized gains and losses	<u>\$ 528,193</u>	<u>\$ (54,407)</u>	<u>\$ -</u>	<u>\$ -</u>
Change in split interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 526,392</u>	<u>\$ 130,269</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The following table presents a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2012:

	<u>Hedge</u>	<u>Private Equity</u>	<u>Trusts Held by Others</u>	<u>Beneficial Interest in Perpetual Trusts</u>
Balance at January 1, 2012	\$ 3,366,744	\$ 2,317,788	\$ 1,366,011	\$ 779,475
Adjustments to fair value	315,404	(883,982)	179,047	57,940
Additions	450,000	755,048	-	-
Withdrawals and payments	-	(122,469)	-	-
Balance at December 31, 2012	<u>\$ 4,132,148</u>	<u>\$ 2,066,385</u>	<u>\$ 1,545,058</u>	<u>\$ 837,415</u>

Unrealized gains and losses for assets still held at December 31, 2012 are included in the consolidated statement of activities as follows:

	<u>Hedge</u>	<u>Private Equity</u>	<u>Trusts Held by Others</u>	<u>Beneficial Interest in Perpetual Trusts</u>
Net realized and unrealized gains and losses	<u>\$ 315,404</u>	<u>\$ (935,293)</u>	<u>\$ -</u>	<u>\$ -</u>
Change in split interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,047</u>	<u>\$ 57,940</u>

Additional information on investments in certain entities that calculate NAV per share at December 31, 2013 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative funds				
International	\$ 4,337,289	\$ -	Quarterly	95 days
Fixed income	8,048,094	-	Monthly (1)	5-10 days
Hedge	4,660,341	-	Quarterly (2)	100 days (2)
Private equity	<u>2,444,184</u>	<u>5,000,586</u>	Illiquid	None
	<u>\$ 19,489,908</u>	<u>\$ 5,000,586</u>		

Additional information on investments in certain entities that calculate NAV per share at December 31, 2012 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative funds				
International	\$ 3,949,115	\$ -	Quarterly	95 days
Fixed income	7,590,204	-	Monthly (1)	5-10 days
Hedge	4,132,148	-	Quarterly (2)	100 days (2)
Private equity	<u>2,066,385</u>	<u>2,557,542</u>	Illiquid	None
	<u>\$ 17,737,852</u>	<u>\$ 2,557,542</u>		

(1) A complete or partial withdrawal can be made on the last business day of each month.

(2) Redemption requests can be made as of each calendar quarter end subject to a twelve month lock-up that applies to each capital shares' series as issued. Redemption requests require 100 days prior written notice and are based on a redemption schedule that "passes through" the underlying private investment funds.

The international fund focuses on growth in global equities through private investment funds and derivative contracts. The investment is readily redeemable, subject to certain restrictions. Fair value has been estimated using the net asset value per share (practical expedient) provided by the underlying fund manager or the general partner.

Fixed income funds (two funds) focus on growth in United States and global bond markets through various fixed income securities. These investments are readily redeemable, subject to certain restrictions. Fair values have been estimated using the practical expedient provided by the underlying fund manager or the general partner.

The hedge fund focuses on growth in global private investments funds operated by various portfolio managers. The investment is redeemable, subject to certain restrictions. Fair value has been estimated using the practical expedient provided by the underlying fund manager or general partner.

Private equity funds (several funds) focus on growth in equity of United States and global securities and derivatives. These investments are not readily redeemable; however, a secondary market does exist for some of the funds. Distributions are normally made through the liquidation of the underlying assets in the funds. The terms of these investments range from 7 to 20 years. Fair values have been estimated using the practical expedient provided by the underlying fund manager or the general partner.

Other Financial Instruments

In addition to the items reported above that are recorded at fair value, the Organization has the following assets and liabilities that meet the definition of financial instruments, as reported in the accompanying consolidated financial statements:

	2013	2012
Assets		
Contract for deed and other receivables	\$ 923,393	\$ 934,684
Note receivable	2,237,737	627,270
Cash surrender value of life insurance	425,867	386,460
Liabilities		
Investments held for others	246,728	252,561
Notes payable	12,575,650	14,840,865

The Organization considers the carrying amount of the financial instruments listed above to be reasonable estimates of fair value.

Note 3 - Promises to Give

Promises to give as of December 31, 2013 and 2012 represent unconditional promises restricted for various purposes and estimated to be collected as follows:

	2013	2012
Receivable in less than one year	\$ 9,910,677	\$ 10,527,009
Receivable in one to five years	18,185,815	19,515,883
Receivable in more than five years	2,328,283	4,946,753
	30,424,775	34,989,645
Discount to net present value (.80% to 3.50%)	(907,019)	(1,762,754)
	29,517,756	33,226,891
Allowance for uncollectible promises to give	(1,475,888)	(1,661,344)
	\$ 28,041,868	\$ 31,565,547

Note 4 - Notes, Contracts, and Other Receivables

Notes, contracts, and other receivables consist of the following:

	2013	2012
Notes receivable, net of present value discount of \$160,446 and \$32,730, respectively, and allowance for uncollectible notes receivable of \$92,595 and \$0-, respectively	\$ 2,237,737	\$ 627,270
Contract for deed	657,604	694,836
Other receivables	265,789	239,848
	\$ 3,161,130	\$ 1,561,954

Notes receivable are comprised of two notes that are discounted to present value using discount rates of 1.25% and 3.50%. The first note is an interest free note due from SDSU in annual installments of \$165,000 that matures in 2016. The second note was issued to the Foundation as a part of the settlement of a donor's estate. The note bears interest at 5.00% per year on the unpaid principal balance and requires annual interest payments of \$73,000 with a final payment of the outstanding principal plus accrued interest due in October 2020.

The contract for deed represents amounts due from a collateralized obligation under payment terms exceeding one year. The interest rate on the contract for deed may change from time to time; however, the contract provides for a minimum interest rate of 4.00% and a maximum interest rate of 5.00%. Payments are applied first to unpaid interest with any remainder applied to the outstanding principal balance. Other receivables consist of various operating receivables originating through the normal course of business and bear no interest.

Management determines the allowance for uncollectible notes, contracts, and other receivables based on its assessment of potential bad debts, the specific circumstances of the underlying receivable, and historical experience. Management has determined that the contract for deed and other receivables are fully collectible and has not established a related allowance. Notes receivable are written off against the allowance when they are deemed uncollectible.

Note 5 - Notes Payable

Building Note Payable

The Foundation has a long-term note payable with a banking institution. The note is secured by its office building. The note matures in March 2020 and requires monthly payments of principal and interest of \$11,300. The balance of the note at December 31, 2013 and 2012 is \$722,449 and \$846,598, respectively.

Bank-Qualified, Tax-Exempt Notes Payable

The Foundation entered into \$10,000,000 of bank-qualified, tax-exempt financing in an arrangement with Brookings County and a banking institution. A portion of the financing originally totaling \$9,100,000 matures June 28, 2017, with the remaining portion originally totaling \$900,000 maturing June 28, 2020. The financing was obtained to help fund the construction of several campus building projects and requires annual payments of \$979,230, plus interest based on a variable rate equal to the Prime Rate less 100 basis points multiplied by .65 (1.46% as of December 31, 2013 and 2012). The financing is secured by substantially all current and future assets relating to the projects and is subject to certain financial and other covenants. The aggregate balance of these notes as of December 31, 2013 and 2012 is \$5,103,849 and \$6,083,080, respectively.

The Foundation entered into \$12,000,000 of bank-qualified, tax-exempt financing in an arrangement with Brookings County and a banking institution relating to the long-term financing of the Avera Health and Science Center. The agreement requires annual payments of \$1,500,000 plus interest fixed at 4.25% and has a final maturity of July 31, 2017. The financing is secured by substantially all current and future assets related to the project and is subject to certain financial and other covenants. The balance of the note was \$5,888,194 and \$7,388,194 as of December 31, 2013 and 2012, respectively.

Operating Loans

The Farm has two revolving lines of credit totaling \$1,000,000 from a banking institution for operations and livestock purchases. The lines provide for borrowings on a short-term basis with any outstanding borrowings and accrued interest due on June 15, 2014, subsequently renewed under similar terms to June 15, 2015. The lines carry variable interest rates at 1.25% below the bank's prime rate, rounded to the nearest .125%, and are secured by substantially all of the income and assets of the Farm. Prior to September 2013, the lines carried a variable interest rate at .50% above the Wall Street Journal prime rate, rounded to the nearest .125%, and were secured by substantially all the income and assets of the Farm. Prior to August 2012, the lines carried a variable interest rate at 2.0% over the Wall Street Journal prime rate, subject to a 5.00% floor, and were secured by substantially all the income and assets of the Farm. The aggregate balance of the lines as of December 31, 2013 and 2012 was \$636,000 and \$436,500, respectively.

Other Long-Term Notes Payable

The Farm's other long-term notes payable consist of four equipment notes with varying terms and combined balances of \$225,158 and \$86,493 as of December 31, 2013 and 2012, respectively.

Scheduled Maturities

The estimated principal maturities by year of notes payable at December 31, 2013, are summarized as follows:

<u>Years Ending December 31,</u>	
2014	\$ 3,291,313
2015	2,633,682
2016	2,635,475
2017	3,439,731
2018	230,112
Thereafter	345,337
	<u>\$ 12,575,650</u>

Interest Expense

Interest expense on notes payable totaled \$417,077 and \$495,743 for 2013 and 2012, respectively, and is recorded in administrative and general expenses on the accompanying consolidated statements of activities.

Note 6 - Endowments

The Foundation's endowment consists of approximately 1,600 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation's Board of Governors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation.

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The changes in endowment net assets by fund type for the years ended December 31, 2013 and 2012 are as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year, January 1, 2013	\$ (7,644,767)	\$ 6,704,891	\$ 100,682,526	\$ 99,742,650
Endowment net assets transferred from designation change during 2013	3,357	(40,158)	(87,933)	(124,734)
Investment return				
Investment income	-	2,214,993	98,408	2,313,401
Net appreciation	-	8,512,982	-	8,512,982
Total investment return	-	10,727,975	98,408	10,826,383
Contributions	-	638,342	8,975,407	9,613,749
Appropriation of endowment assets for expenditure and transfers	2,541,905	(7,293,180)	-	(4,751,275)
Endowment net assets at end of year, December 31, 2013	<u>\$ (5,099,505)</u>	<u>\$ 10,737,870</u>	<u>\$ 109,668,408</u>	<u>\$ 115,306,773</u>
	2012			
Endowment net assets at beginning of year, January 1, 2012	\$ (10,676,791)	\$ 4,169,157	\$ 96,019,026	\$ 89,511,392
Endowment net assets transferred from designation change during 2012	-	184,492	(1,625)	182,867
Investment return				
Investment income	-	1,992,123	1,615	1,993,738
Net appreciation (depreciation)	-	6,103,172	(2,014)	6,101,158
Total investment return	-	8,095,295	(399)	8,094,896
Contributions	-	1,793,223	4,665,524	6,458,747
Appropriation of endowment assets for expenditure and transfers	3,032,024	(7,537,276)	-	(4,505,252)
Endowment net assets at end of year, December 31, 2012	<u>\$ (7,644,767)</u>	<u>\$ 6,704,891</u>	<u>\$ 100,682,526</u>	<u>\$ 99,742,650</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$5,100,000 and \$7,645,000 as of December 31, 2013 and 2012, respectively. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted gifts and from continued appropriation for certain programs that are deemed prudent by the Board of Governors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of income for the funding of programs supported by its endowment. Investment assets include those assets of donor-specific funds that the organization will designate for a specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that seeks both preservation of capital and growth of capital on a real return basis. Asset allocation guidelines have been established for the endowment based on liquidity needs, risk tolerance and time horizon. The rebalancing of assets will occur at least annually, or as needed to stay within ranges set forth in the Foundation's Investment Policy Statement. During the course of a complete market cycle, the total fund return objective shall be to achieve a return greater than capital market returns with lower risk, as measured by standard deviation, than a similarly weighted asset allocation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's policy of appropriating for distribution each year is determined on an as-needed basis subject to the approval of the Board of Governors. The Foundation's endowment pool is maintained primarily to provide for current and future distributions. To smooth the annual distributions, the Foundation applies a spending rate to the total endowment pool's average market value of the most recent twenty quarters. The spending rate applied to the average market value over the twenty quarters ended in 2013 and 2012 was 4.00%. In addition to the annual spending in support of endowed programs, the Foundation may assess an administrative fee not to exceed 1.60% of the current market value of the endowment for the years ended December 31, 2013 and 2012. The annual spending calculation takes into consideration the program needs of SDSU, the administrative costs of the Foundation, current market conditions, and inter-generational equity.

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Scholarships	\$ 5,842,109	\$ 5,020,117
SDSU operational and program support	21,641,852	18,583,023
SDSU capital projects	30,810,294	15,353,544
	\$ 58,294,255	\$ 38,956,684

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2013	2012
Purpose restrictions accomplished		
Current year expenditures		
Scholarships	\$ 3,383,828	\$ 2,600,552
SDSU operational and program support	5,689,624	4,546,006
SDSU capital projects	10,734,507	2,792,258
Other program support and direct investment expenses	3,883,374	2,793,658
Foundation administrative fee retained	2,564,973	2,005,760
Previously incurred expenditures		
Scholarships	744,946	1,374,878
SDSU operational and program support	2,291	358,157
SDSU capital projects	224,967	795,575
	\$ 27,228,510	\$ 17,266,844

Permanently restricted net assets with expendable earnings are dedicated to support the following purposes:

	2013	2012
Scholarships	\$ 71,693,631	\$ 68,615,734
SDSU operational and program support	49,088,220	41,770,693
	\$ 120,781,851	\$ 110,386,427

Note 8 - Unrestricted Net Assets Deficit

Certain endowment investments had market values that were less than the original value of endowed gifts (Note 6). The effect of changes in these deficiencies, approximately \$2,545,000 and \$3,033,000 as of December 31, 2013 and 2012, respectively, is included in interfund transfers on the accompanying consolidated statements of activities. This cumulative deficiency totaled approximately \$5,100,000 and \$7,645,000 as of December 31, 2013 and 2012, respectively. The deficiency has resulted primarily from declines in the investment market and is reported in unrestricted net assets. The Foundation plans to recover the deficiency from future endowment investment returns.

Additionally, support for various SDSU scholarships, programs and capital projects in excess of restricted gifts, including promises to give, has resulted in deficiencies that are reported in unrestricted net assets. This cumulative deficiency totaled approximately \$5,899,000 and \$6,380,000 as of December 31, 2013 and 2012, respectively. The Foundation plans to recover this unrestricted net assets deficit with future gifts as well as changes to the programmatic support provided to SDSU.

Note 9 - Retirement Plan

The Organization provides retirement benefits for all full-time and permanent part-time employees. Employees are required to contribute five percent of their salary to the plan once they have completed 500 hours in the first six months of service or 1,000 hours in the first twelve months of service, whichever comes first. The Organization is required to contribute an amount equal to each employee's contribution, up to five percent. The Organization made contributions of \$81,830 and \$77,683 to the plan for the years ended December 31, 2013 and 2012, respectively.

Note 10 - Fundraising Costs

The Foundation incurred direct fundraising costs of \$2,272,475 and \$2,501,165 for 2013 and 2012, respectively. These costs are included in administrative and general expenses on the accompanying consolidated statements of activities. Management believes that the vast majority of other administrative expenses relate indirectly to fundraising.

Note 11 - Commitments

Capital Contributions

The Foundation has entered into contracts to invest in various professionally managed private equity funds. Selection of these funds is based on several factors, including evaluation by the Foundation's Investment Committee and professional investment consulting firm, and occurs only upon performance of due diligence procedures that help to ensure the quality of the investments. As of December 31, 2013, these contracts require the Foundation to contribute total capital of approximately \$8,720,000, plus certain allowable expenses. As of December 31, 2013, the Foundation has contributed approximately \$3,720,000. Additional contributions related to this commitment of approximately \$5,000,000 will be paid when requested by the fund managers. The contributions are included in investments on the accompanying consolidated statements of financial position. Subsequent to December 31, 2013, the Foundation committed to make an additional \$2,000,000 investment of funds.

Campus Building Projects

The Foundation has committed to fund selected construction projects on the SDSU campus. The costs of these projects are generally expensed as construction progresses. In some cases, the Foundation finances the construction costs until promise to give commitments are received. As of December 31, 2013, the Foundation has committed to provide approximately \$70,000,000 for nine SDSU building projects, either yet to be started or already in progress. Through December 31, 2013, the Foundation has paid costs of approximately \$10,000,000 towards these projects.

SOUTH DAKOTA STATE UNIVERSITY
FUNCTIONAL CLASS MATRIX
FYE June 30, 2014

	Personal Services	Travel	Contractual	Supplies & non-capitalized equip	Grants & Subsidies	Other & Bad Debt Expense	Depreciation & Amortization	Total
Instruction	\$ 62,652,982.00	\$ 1,659,274.62	\$ 3,832,725.73	\$ 4,048,831.74	\$ 693,962.48	\$ 65.30	\$ 594,981.65	\$ 73,482,823.52
Research	28,873,773.43	1,935,254.07	4,672,431.71	5,951,191.32	9,158,746.71	6,231.46	2,410,130.00	53,007,758.70
Public Service	16,960,443.70	840,666.46	3,702,693.64	3,109,024.46	1,250,514.47	4,382.15	111,680.22	25,979,405.10
Academic Support	10,779,313.23	317,564.53	572,396.16	1,373,568.48	6,671.09	24.50	737,691.92	13,787,229.91
Student Services	10,637,712.78	2,321,231.29	2,951,604.77	2,342,881.25	108,778.02	173.27	34,922.43	18,397,303.81
Institutional Support	15,011,541.85	241,851.96	5,279,101.76	198,678.45	1,456,808.03	601,986.76	382,818.30	23,172,787.11
Operations & Maint of Plant	7,988,154.95	66,421.00	6,513,842.64	3,313,479.31	2,234.27	265.49	13,985,286.76	31,869,684.42
Scholarships & Fellowships	426,700.83	9,721.91	1,576.23	107,670.19	5,824,784.44	-	-	6,370,453.60
Auxiliary Enterprises	5,293,254.98	62,138.42	11,925,779.40	6,917,043.96	452,694.23		32,856.57	24,683,767.56
Other Expenses								-
Depreciation (Unallocated)							87,755.48	87,755.48
TOTAL	\$ 158,623,877.75	\$ 7,454,124.26	\$ 39,452,152.04	\$ 27,362,369.16	\$ 18,955,193.74	\$ 613,128.93	\$ 18,378,123.33	\$ 270,838,969.21

Other & Bad Debt Expense:

Other Operating Expense	\$ 80,356.87
Interest	3,651.08
Bad Debt Expense	205,488.00
Loan Cancellation Expense	323,632.98

Total Other & Bad Debt Expense \$ 613,128.93